ORIGINAL

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-02113A-07-0551 **NOTICE OF FILING**

Chaparral City Water Company, an Arizona corporation ("Company"), hereby submits this Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith is Company's Rebuttal Testimony, which includes the following testimonies, along with supporting schedules and/or exhibits:

1. Rebuttal Testimony of Robert N. Hanford;
2. Rebuttal Testimony of Robert J. Sprowls;
3. Rebuttal Testimony of Thomas J. Bourassa (Rate Base); and
4. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital).

DATED this 31st day of October, 2008.

FENNEMORE CRAIG, P.C.

By _____
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ORIGINAL and thirteen (13) copies of the foregoing were filed this 31st day of October, 2008, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Copy of the foregoing was hand delivered this 31st day of October, 2008, to:

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REBUTTAL TESTIMONIES

OF

ROBERT N. HANFORD

ROBERT J. SPROWLS

THOMAS J. BOURASSA (RATE BASE)

THOMAS J. BOURASSA (COST OF OF CAPITAL)

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REBUTTAL TESTIMONY

OF

ROBERT N. HANFORD

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I. INTRODUCTION, PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert N. Hanford, 12021 N. Panorama Dr., Fountain Hills, Arizona, 85268.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Chaparral City Water Company ("CCWC" or the "Company") as its District Manager.

Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE COMPANY IN THIS CASE?

A. Yes, my direct testimony was filed in September, 2007, with the Company's application. I also provided testimony in September, 2008, in support of Company's motion for approval of interim rates.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. To further support Chaparral City's application for rate relief by responding to certain aspects of the direct testimony of Utilities Division Staff ("Staff") and RUCO. Specifically, I have reviewed the filings made by RUCO and Staff and in my rebuttal will discuss (1) the Company's settlement with Fountain Hills Sanitary District ("FHSD"); (2) our recent acquisition of an additional CAP allocation; (3) removal of certain wells and treatment facilities from rate base; (4) expense "normalization"; (5) rate case expense; and (6) reduced revenues from water sales to golf courses. Because Mr. Bourassa also addresses each of these issues, where appropriate, I have also included citation to his rebuttal testimony on these subjects.

II. SETTLEMENT WITH FOUNTAIN HILLS SANITARY DISTRICT.

Q. PLEASE SUMMARIZE THE CIRCUMSTANCES THAT GAVE RISE TO THE SETTLEMENT WITH FHSD?

A. The activities of FHSD threatened to impair two of the Company's wells, Well No.

8 and Well No. 9. When FHSD was unable to provide replacement water sources, a settlement was negotiated and a settlement payment was collected by CCWC. I provided a more detailed discussion of the background in my direct testimony ("Hanford Dt.") at 9-11.

Q. WHAT WOULD HAVE HAPPENED IF CCWC AND FHSD DID NOT REACH A SETTLEMENT?

A. I believe we would have had to litigate with the local sewer utility service provider or simply live with their impairment of our assets.

Q. HOW DID THE COMPANY PROPOSE TO TREAT THE PROCEEDS FROM THE SETTLEMENT?

A. I will leave it to Mr. Bourassa to explain the specifics of the accounting and ratemaking treatment. Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 10 & 18; Rebuttal Testimony of Thomas J. Bourassa (Rate Base, Income Statement, Revenue Requirement, Rate Design) ("Bourassa Rb.") at 13. In simple terms, we believe that the proceeds should be treated in a manner that shares the benefit equally between the Company and its customers, and that is how we have treated these proceeds on our books and in our audited financial statements. We believe this is fair, and we also understood it was consistent with past treatment of settlement proceeds in Commission proceedings.

Q. ARE YOU AWARE OF STAFF'S RECOMMENDATION TO RECOGNIZE THE PROCEEDS IN A MANNER THAT SOLELY BENEFITS THE RATEPAYERS?

A. Yes, I have reviewed Mr. Millsap's testimony. We do not agree with his recommendation.

Q. WHY DOES THE COMPANY DISAGREE WITH STAFF'S RECOMMENDATION?

A. Again, I will leave it to Mr. Bourassa to address the ratemaking implications of Staff's recommendation. Bourassa Rb. at 13-15. The Company's perspective is straight-forward—why would CCWC ever pursue litigation or settlement against a third-party that impairs our assets if there is no benefit to the utility? The answer is—we wouldn't, and I suspect any other utility would share a similar view. There is too much risk. Instead, in circumstances like the FHSD settlement, we would be better off shutting down the impaired assets, replacing them and basically starting all over. That is the decision we would be forced to make in the future if Staff's treatment of the settlement proceeds was adopted by the Commission. We have an obligation to our customers, but also to our shareholders. I believe the Commission should strike the same balance.

Q. IS MR. MILLSAP CORRECT THAT CCWC NEVER SOLD THE WELLS?

A. Yes, we still own the wells, so I guess characterizing it as a "gain on sale" is not technically correct. I understand that the Company has actually recorded the settlement proceeds as a "gain on settlement for removal of wells" in the 2005 Audit Report. Bourassa Rb. at 13. I assume the income to CCWC had to be characterized in some manner, but I cannot imagine how this sort of characterization would support Staff's position that the Company should receive no benefit from the settlement.

Q. COULD CCWC STILL SELL THE TWO WELLS?

A. In theory, yes. But I don't see much of a market for Well #8 which is a small 60 x 60 foot parcel in the middle of a condo complex or Well No. 9, which is an impaired well on a third of an acre parcel right next to a strip center where the buyer would also have to have an independent right to pump these wells in an Active Management Area. That said, if we did find someone to buy our assets, I don't see why that "gain on sale" couldn't be shared equally with ratepayers, just

like we propose for the settlement proceeds. We really thought we were trying to be fair with our proposal.

Q. WHAT ABOUT MR. MILLSAP'S TESTIMONY THAT YOU MADE A MANAGEMENT DECISION TO REMOVE THE WELLS FROM SERVICE?

A. On page 5 of his direct testimony Mr. Millsap incorrectly states that both Wells #8 and #9 were removed from service as part of the FHSD settlement. Well #8 was historically used only as a raw water source for irrigating Fountain Park and providing water to Fountain Lake. Well #9 was impaired and taken offline due to its proximity to one of the FHSD's aquifer storage and recovery wells ("ASR"). All of this was handled in a cooperative and amicable negotiation process between and FHSD and CCWC, with both parties choosing to avoid the time and expense of litigation.

Q. WHAT ABOUT MR. MILLSAP'S TESTIMONY THAT CCWC REPLACED THE WATER FROM THE IMPAIRED WELLS WITH CAP WATER. IS THIS CORRECT?

A. This testimony is not quite accurate. Millsap Dt. at 13. The settlement proceeds were used solely for backbone water infrastructure projects.

Q. WHAT ABOUT MR. MILLSAP'S CLAIM THAT THE COMPANY WAS ALREADY COMPENSATED BY RATEPAYERS FOR THE TWO WELLS?

A. It seems to me like Mr. Millsap is claiming that the customers own our assets. They don't. CCWC bought and paid for the assets in full and through the ratemaking process it received a return on and of that capital investment.

Q. DO YOU HAVE ANYTHING ELSE TO ADD REGARDING THE RATEMAKING TREATMENT TO BE AFFORDED THE PROCEEDS FROM SETTLEMENT WITH FHSD, MR. HANFORD?

A. Just to reiterate that we believe our proposed sharing of the settlement proceeds is fair, and that since the proceeds have already been treated this way, a change would further burden CCWC, adding insult to injury because it would require the Company and its parent to issue restated financials.

III. ACQUISITION OF ADDITIONAL CAP ALLOCATION.

Q. STAFF HAS RECOMMENDED A DIFFERENT RATEMAKING TREATMENT FOR THE COMPANY'S RECENTLY ACQUIRED ADDITIONAL CAP ALLOCATION. DOES CCWC AGREE TO STAFF'S RECOMMENDATION?

A. Yes, as explained by Mr. Bourassa in his rebuttal testimony. Bourassa Rb. at 6 & 29.

Q. RUCO RECOMMENDS NO RECOVERY OF ANY OF THE COSTS RELATED TO THE ADDITIONAL CAP ALLOCATION. HOW DO YOU RESPOND?

A. RUCO's witness, Mr. Coley, claims that the additional CAP allocation is "not currently used and useful". Coley Dt. at 20. But RUCO's view of what constitute "used and useful" plant is far too narrow and inconsistent with the realities of running a water utility.

Q. PLEASE EXPLAIN WHAT YOU MEAN?

A. I think it is important to remember the historical perspective on this matter. The additional allocation was made available to CCWC as part of the *Arizona Water Settlement Act,* an 800 plus page piece of federal legislation that resolved decades of contentious water issues between states and Indian tribes. All parties who received additional CAP allocations under the act were made aware that this was a one-time, take-it-or-leave-it proposition that would never again be made available to CAP subcontractors.

With this in mind we considered this acquisition of an additional renewable water supply to also be like an insurance policy. Currently, Southern California is facing curtailments in its surface water supplies due to ongoing dry water years and lack of Sierra snow pack. At the same time, Nevada is spending billions of dollars to import water from Eastern Nevada and to lower its Colorado River intakes. These two "elephants" in the room cannot be ignored when we discuss western water supply from the Colorado River, as the State of Arizona could also be impacted by these events in the future. From CCWC's direct perspective, the additional CAP allocation provides us with a drought buffer both from interstate and intrastate demand for Colorado River supply.

Q. CAN YOU RECONCILE RUCO'S POSITION WITH THE INTERESTS OF THE COMPANY AND ITS RATEPAYERS?

A. No, I can't. Amazingly, it does not appear that RUCO can either. In response to data requests from the Company, RUCO admitted that it is in the public interest to reduce groundwater use in our service territory, that we should take steps to ensure the long-term security of our water resources, that the additional allocation would increase the amount of water we can obtain in times of curtailment, and that it would be contrary to our customers' interests to not have this additional allocation. If RUCO agrees that we have acted in a manner that benefits our customers and the public interest at-large, I do not see how they can recommend that we be denied any recovery of the cost of obtaining this beneficial asset.

Q. BUT MR. HANFORD, ISN'T RUCO JUST SAYING THAT ALTHOUGH YOU ACTED TO BENEFIT THE CUSTOMERS, THIS ISN'T THE TIME FOR RECOVERY THROUGH RATES?

A. That seems to be the gist of RUCO's position. But RUCO's position ignores that we had one opportunity to purchase an additional allocation in a fixed amount,

facts RUCO has also admitted in response to data requests. RUCO also ignores business reality—CCWC's shareholder has experienced a steadily declining return on its investment in Arizona and is not likely to retain an asset indefinitely if it is not recovering the costs of its investment in any manner. The Company's shareholder is not a charity in business to subsidize our ratepayers.

Q. WHAT CAN CCWC DO WITH THE ADDITIONAL ALLOCATION IF IT IS NOT ALLOWED ANY COST RECOVERY?

A. We would either relinquish the asset back to CAWCD and obtain a refund of our $1.28 million acquisition cost, or we would find some use of the water, consistent with Arizona law and our contract with CAWCD, but likely outside of the regulatory framework. Either way, this will mean that such water will no longer be available to the benefit of our ratepayers. This also means, in my view, that given all of the circumstances, the additional allocation is "currently used and useful".

IV. <u>REMOVAL OF PLANT FROM RATE BASE.</u>

Q. BOTH STAFF AND RUCO RECOMMEND ADJUSTMENTS TO REMOVE WELL NO. 8 AND WELL NO. 9, AND THE SHEA WATER TREATMENT FACILITY NO. 1 FROM RATE BASE. DOES THE COMPANY AGREE THAT THESE FACILITIES ARE NO LONGER IN SERVICE?

A. Yes. Well #9 was removed from service for the reasons explained above in my testimony regarding the settlement with FHSD. And though Well #8 could, in theory, be brought back on line we have no current plans to do so. The Shea Water Treatment Facility No. 1 was removed from service in 2005 when it became impractical and no longer cost effective to maintain the outdated technology necessary to keep it available as a back-up.

Q. WHY DIDN'T THE COMPANY REMOVE THESE ASSETS FROM ITS RATE BASE BEFORE MAKING THIS RATE FILING?

A. It was an oversight.

V. STAFF AND RUCO NORMALIZATION OF EXPENSES.

Q. STAFF HAS MADE ADJUSTMENTS TO "NORMALIZE" CHEMICAL AND REPAIRS/MAINTENANCE EXPENSE. DO YOU HAVE ANY COMMENT ON STAFF'S RECOMMENDED ADJUSTMENTS?

A. Yes. Again, I will leave the ratemaking specifics to Mr. Bourassa. Bourassa Rb. at 31-32. For my part, I simply cannot understand how Staff can use 2004 and 2005 expense levels to determine operating expenses that we will be incurring in 2009 and beyond. These expense levels are 5 and 4 years removed from the period when we will begin to recover these expenses through rates.

Q. WHY WERE CCWC's CHEMICAL AND REPAIRS/MAINTENANCE EXPENSES HIGHER IN THE TEST YEAR, 2006, THAN 2004 AND 2005?

A. Costs for the three chemicals we primarily use, sodium hypochlorite, cationic and anionic polymers, have increased significantly since our previous 2003 test year. These costs continue to increase. We have also seen a steady increase in contract labor expense and materials, a trend that leads to a continued increase in Repairs and Maintenance Expense. With these costs increasing, 2004 and 2005 expense levels do not reflect our expenses for these operating expenses.

Q. WERE THERE EXTRAORDINARY CIRCUMSTANCES THAT LED TO THE INCREASE IN THE TEST YEAR CHEMICAL AND REPAIRS/MAINTENANCE EXPENSE LEVELS?

A. No, cost increases being experienced across the board are not "extraordinary"—it is the norm. Based on their responses to data requests, Staff does not appear to be aware of any extraordinary reason for the increases either.

VI. RATE CASE EXPENSE.

Q. BOTH STAFF AND RUCO RECOMMEND DENIAL OF SOME ASPECT

OF THE COMPANY'S REQUEST FOR RATE CASE EXPENSE. DO YOU WISH TO COMMENT ON THESE RECOMMENDATIONS?

A. Yes. Although I note that Mr. Bourassa provides the Company's detailed opposition to these recommendations in his rebuttal testimony. Bourassa Rb. at 22-28. For starters, I find Staff's reduction to our rate case expense from $280,000 to $150,000 to be bordering on confiscatory. For one thing, Staff bombarded us with discovery in this rate case, serving more than 300 data requests (counting subparts), many of which were irrelevant and not applicable to the Company, and many of which required information that appears to have had no impact on Staff's filing. This discovery cost the Company tens of thousands of dollars in rate case expense, not to mention the person-hours required by CCWC and American States personnel to respond. We were served far more discovery in this case than in our last rate.

This brings me to my second point regarding Staff's recommendation. Mr. Millsap states in his testimony that his recommendation is based on rate case expense awarded to "comparable-sized utilities". Millsap Dt. at 32. None of these utilities were identified in his testimony. Then, when we asked for these so-called comparable-sized utilities" to be identified in a data request, Mr. Millsap started by referring to electric and gas companies in Kansas, and then offered vague reference to the Commission "awarding rate case expense in a number of dockets." *See* Staff's response to Company data request 1.27, attached hereto as **Hanford Rebuttal Exhibit 1**. The bottom line appears to be that Mr. Millsap cannot explain the basis for his recommendation. Meanwhile, Mr. Millsap clearly failed to consider our last rate case in which the Commission awarded rate case expense of $285,000. I cannot think of a utility more comparable to CCWC than CCWC. And given Staff's position that inflation affects our rate base and cost of capital, surely Staff should agree that inflation impacts rate case expense making it more

costly to process this rate case than the last one on a simple apples-to-apples comparison.

Q. WAS THERE ANYTHING UNUSUAL ABOUT THE LAST RATE CASE AS COMPARED TO THIS ONE THAT LED TO MORE RATE CASE EXPENSE BEING REQUESTED AND AWARDED IN THAT LAST RATE CASE?

A. No, there are always a number of contested issues in every rate case, and the taxing requirements for multiple rounds of prefiled testimony, hearings, and post-hearing briefings always apply. Nevertheless, I would note that despite the obvious impacts of inflation, and the weight of Staff's discovery efforts in this case, the Company sought less rate case expense in this case than it did in the last rate case. We felt the amount requested, $280,000, was more than fair.

Q. WILL CCWC'S SHAREHOLDER ABSORB SOME OF THE RATE CASE EXPENSE INCURRED FOR THIS RATE CASE?

A. Yes, as we always expect to be the case. Mr. Bourassa's rebuttal contains the relevant numbers. Bourassa Rb. at 24-25. We understand and accept that some of the expense should be absorbed by the Company, but Mr. Millsap's recommendation simply goes way too far.

Q. BUT ISN'T THE COMMISSION SIMPLY DETERMINING A "NORMALIZED" LEVEL OF RATE CASE EXPENSE AS MR. MILLSAP CLAIMS?

A. This does not make any sense to me. Rate case expense is not incurred during the test year and it is not an ordinary operating expense. It is incurred by the Company for the exclusive purpose of obtaining rate relief, something the Company cannot do without spending a substantial amount of money to obtain an order of the Commission granting rate relief. The Commission should look at the total amount

incurred, compare it to the amount requested and the amount awarded in other similar rate cases and reach and award a reasonable level of rate case expense to be recovered over a reasonable time period.

Q. THE COMPANY ALSO SOUGHT TO RECOVER, IN THIS RATE CASE, RATE CASE EXPENSE FOR THE APPEAL OF DECISION NO. 68176 AND RESULTANT REMAND. WHY?

A. Because the Commission told us to seek recovery in this case when it issued the remand decision, Decision No. 70441 (July 28, 2008). As a result, the Company made a supplemental filing seeking to recover $258,511 for the appeal and remand, which amount represents a removal of one half of the costs for the appeal, because we lost one of the two issues, and just over half of the remaining amount that was incurred.

Q. ISN'T HALF A MILLION DOLLARS A LOT OF MONEY FOR THE APPEAL AND REMAND, MR. HANFORD?

A. It sure is. But we did not violate the Arizona Constitution and it was that violation that led to the Court of Appeal's remand. And when the matter was remanded, we fought hard to make the proceeding shorter, less complicated and less expensive. Staff and RUCO argued otherwise, prevailed and then hired multiple expert witnesses that added to the complexity of the remand and made it a lot more expensive. That was their right, but we should not be held solely accountable for the major expense that resulted, especially as we have only asked for roughly one-half of what we incurred as a result of the unlawful decision. This makes Staff's recommended recovery of only $100,000 for the appeal and remand, not even one-quarter of what we incurred as a result of the violation of the Arizona Constitution by the Commission.

Q. BUT WASN'T IT A "BUSINESS DECISION" TO FILE THE APPEAL, AS

RUCO'S WITNESS TESTIFIES?

A. Yes, it is true that CCWC had to make a "business decision" whether to risk its money asking the courts to require the Commission to follow the law. But so what? It was the Commission that failed to follow the Constitution and the Court that ordered the remand as a result. Had the Constitution been followed in the first place, as CCWC argued in the rate case, none of the costs for the appeal and remand would have resulted. And for this reason the Company should receive a reasonable award of rate case expense.

VII. REDUCTION IN GOLF COURSE REVENUES

Q. IN THE COMPANY'S FILING, MR. BOURASSA MADE A *PRO FORMA* ADJUSTMENT TO ACCOUNT FOR REDUCED WATER SALES TO GOLF COURSES IN CCWC'S CCN. HAS THAT TREND CONTINUED?

A. Yes, although in our filing Mr. Bourassa only had available 2006 revenues and the reduction in revenues did not begin occurring until the second half of the Test Year. Now we know that our irrigation sales to the four golf courses we serve decreased from 765.4 ac-ft in 2006 to 196.5 ac-ft in 2007. Further, through the end of the third quarter of 2008, total irrigation sales are within 5% of 2007 sales for the same period in 2007.

Q. RUCO MADE AN ADJUSTMENT TO UTILIZE THE WATER SALES TO GOLF COURSES IN 2007, RATHER THAN ADOPT MR. BOURASSA'S *PRO FORMA* ADJUSTMENT. IS RUCO'S ADJUSTMENT ACCEPTABLE TO THE COMPANY?

A. Yes, we believe that RUCO's revenues from water sales are a better reflection of the level of water sales to golf courses we can expect in the future, a minor benefit resulting from the unfortunate delay in processing this rate application. Mr. Bourassa further explains the Company's acceptance of RUCO's adjustment in

his rebuttal testimony. Bourassa Rb. at 28.

Q. IS IT POSSIBLE THAT REVENUES FROM WATER SALES WILL CONTINUE TO DECLINE IF RATE INCREASES ARE AWARDED?

A. Yes, especially given the fact that we are seeking to address an anomaly in our rate design with respect to irrigation water. *See* Bourassa Dt. at 17. But, at this time, we cannot know for sure if future sales will decline further beyond what we have seen since mid-2006 and continuing today, or by how much. We will have to leave that question for our next rate case.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, although I wish to note that my silence on any issue raised by Staff or RUCO should not be construed as the Company's acceptance.

HANFORD REBUTTAL EXHIBIT 1

STAFF'S RESPONSE TO THE
FIRST SET OF DATA REQUESTS
FROM CHAPARRAL CITY WATER COMPANY
TO THE ARIZONA CORPORATION COMMISSION STAFF
Docket No. W-02113A-07-0551
October 16, 2008

1.27. Identify each and every "comparable sized" utility considered by Staff in reaching its recommended level of rate case expense as testified to by Mr. Millsap (Dt at 32).

Response: Based on Mr. Millsap's experience with the Kansas Commission, he considered companies such as Empire District Electric Company, Peoples Natural Gas, Western Resources and One OK.

In addition, Staff notes that rate case expense has been awarded by the Commission in a number of dockets, including, but not limited to, Arizona-American, docket no. 05-0405; Arizona Water, docket no 02-0619, Pine Water, docket no.03-0279.

Respondent: Marvin Millsap; Elijah Abinah

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REBUTTAL TESTIMONY OF ROBERT J. SPROWLS

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I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert J. Sprowls, 630 East Foothill Boulevard, San Dimas, California 91773.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Golden State Water Company ("GSWC"). Currently, I am Executive Vice President–Finance, Chief Financial Officer, and Corporate Secretary of American States Water Company ("AWR"), Golden State Water Company ("GSWC"), and Chaparral City Water Company ("CCWC" or "Company"). In July 2008, I was named as the next President and Chief Executive Officer of AWR and its subsidiaries. I will assume my new position on January 1, 2009. I have been employed by GSWC since June 2004.

Q. ON WHOSE BEHALF ARE YOU PROVIDING REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. On behalf of the Applicant, Chaparral City Water Company ("CCWC" or the "Company").

Q. DESCRIBE GSWC AND ITS RELATIONSHIP TO CCWC.

A. GSWC is an affiliate of CCWC. Both CCWC and GSWC are wholly-owned by AWR. GSWC is AWR's principal subsidiary. It provides water utility service to approximately 250,000 customers in 75 communities in California, and electric service to approximately 23,000 customers in the Big Bear Lake area in the San Bernardino mountains.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION.

A. I have responsibility for all financial, accounting, and tax matters relating to AWR and its subsidiaries, including CCWC. In addition, the Internal Audit and Risk Management Departments report to me.

Q. WHAT WAS YOUR WORK HISTORY BEFORE JOINING GSWC?

A. Prior to joining GSWC, I was employed for 21 years by CILCORP Inc. ("CILCORP") and its subsidiaries. During my career at CILCORP, I held several positions, the most notable of which included Treasurer and Vice President of CILCORP; Chief Financial Officer of CILCORP's non-regulated subsidiary QST Enterprises Inc; and Treasurer, Vice President of Strategic Services, Chief Financial Officer, and Business Unit Leader – Energy Delivery for CILCORP subsidiary Central Illinois Light Company ("CILCO"). My last position at CILCORP was President of CILCO. CILCO is an electric and gas utility with approximately 1,200 MW of electric generation. QST Enterprises operated companies in the following markets: non-regulated retail and wholesale electricity and natural gas; environmental and engineering services; and telecommunications.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Bachelor of Arts degree in Economics and Business Administration from Knox College and a Master of Business Administration degree with a concentration in Accounting and Finance from Bradley University.

Q. DO YOU HAVE ANY ADDITIONAL TRAINING, LICENSING OR CERTIFICATIONS?

A. I also hold the Certified Public Accountant (CPA) and Certified Management Accountant (CMA) designations.

Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF CCWC IN THIS CASE?

A. No.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. The purpose of my testimony is to discuss, in very general terms, AWR's concerns over the financial performance of CCWC and some of the positions taken by some

parties in this proceeding regarding CCWC's financial performance and its need for rate relief. In so doing, I assume that all the parties to this rate case and the Commission agree that it is extremely important to authorize rates that will generate sufficient earnings and allow CCWC to attract capital needed to ensure safe and reliable utility service. My testimony will address only this subject.

II. CCWC'S FINANCIAL PERFORMANCE.

Q. MR. SPROWLS, PLEASE SUMMARIZE YOUR CONCERNS REGARDING CCWC'S FINANCIAL PERFORMANCE.

A AWR's management is very concerned about CCWC's ability (1) to obtain an adequate authorized rate of return that is sufficient to attract capital investment, and (2) to actually earn the rate of return authorized by this Commission. Regarding the first point (obtaining an adequate rate of return), the Company has requested a return on equity of 11.5 percent in this application. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital) at 3-4. For the reasons explained by Mr. Bourassa, we believe that this ROE will enable CCWC to attract capital to invest in the system.

Equally important as the need to obtain an adequate rate of return is AWR's second concern, namely, that CCWC must be able to actually earn its authorized rate of return. Unfortunately, the reality is that CCWC is not currently earning its authorized rate of return and if it were a stand-alone company, it is doubtful that it would be able to attract either debt or equity. Moreover, since the last rate case was decided in September 2005, CCWC has earned less than its authorized rate of return every year. Based on year-end financial statements, even after removing goodwill from the equity balance, CCWC's return on equity was 3.47% for 2006 and 3.04% for 2007. *See* Audited Financials 2006 and 2007 at **Sprowls Rebuttal**

Exhibit 1. We don't anticipate that CCWC will earn its authorized return in 2008 either.

In our view, this inability to earn at the authorized level is largely a consequence of using an historical test year with no allowance for out-of-period adjustments; the use of historic averaging to reduce operating expenses below current levels; disallowing adjustment mechanisms for expenses like purchased water and power that have been steadily increasing; and setting rates of return that are lower than most.

Q. WHAT IS THE PRACTICAL IMPACT OF CCWC'S FINANCIAL CIRCUMSTANCES?

A. CCWC's ability to attract capital is diminishing. This can be seen in the Company's 2009 capital budget, which shows a capital budget for CCWC of approximately $800,000. This is substantially less than CCWC's recent capital budgets. I expect this trend of reducing capital investments in CCWC will continue unless something changes in Arizona. The implication of these reduced capital budgets is that only those projects that are absolutely necessary to maintain public health standards and serve customers will be undertaken.

Q. DOESN'T CCWC HAVE AN OBLIGATION TO INVEST THE CAPITAL NECESSARY TO ENSURE SAFE AND RELIABLE WATER UTILITY SERVICE TO ITS CUSTOMERS?

A. Yes, and CCWC is clearly meeting that obligation. We have no intention of allowing CCWC's service to deteriorate to the point at which it is failing to meet minimum service requirements and applicable legal and regulatory standards. There is a difference, however, between simply maintaining the required minimum level of service and investing on a proactive basis to ensure that higher quality service can be continually ensured into the future. An inefficient investment

strategy is to only repair facilities when repairs are absolutely necessary versus the value added in preventative maintenance and prudent capital planning and spending. In the long run, it is more costly to rate payers to maintain the system at minimum levels.

Q. CAN YOU PROVIDE AN EXAMPLE OF AN EFFICIENT AND PROACTIVE INVESTMENT APPROACH?

A. Yes. A good example of the Company meeting its responsibility is CCWC's recent acquisition of an additional allocation of Central Arizona Project ("CAP") water. We invested $1.28 million to acquire the right to additional, renewable surface water from the Colorado River, which provides greater assurance regarding the long-term availability of water for CCWC's customers while promoting the State's policy of promoting sustainable groundwater use. We were not required to make this investment. We did so to be proactive and to protect CCWC's customers in the event of a drought or other events that cause a reduction in the availability of Colorado River. RUCO, however, recommends that CCWC be denied any recovery on this investment. If RUCO's position were adopted, we would be penalized for looking out for the long-term interests of CCWC's customers and the community of Fountain Hills. The message would be that we should not have made the investment necessary to secure additional Colorado River water, and instead should rely on groundwater pumping if shortages occur. In addition, even if the Commission rejects RUCO's position and does allow CCWC to include the investment in CAP water into CCWC's ratebase, the Commission still needs to take steps to ensure that CCWC will actually have the opportunity to earn its authorized rate of return on its investment. Without that opportunity, AWR will be hesitant to make future investments of this nature despite the positive benefits to our customers.

Q. YOU HAVE INDICATED THAT YOU HAVE CONCERNS WITH SOME OF THE POSITIONS TAKEN BY VARIOUS PARTIES IN THIS PROCEEDING REGARDING CCWC'S NEED FOR RATE RELIEF. COULD YOU PLEASE ELABORATE ON THIS CONCERN?

A. Yes. I would like to begin by answering this question with reference to another recent filing by RUCO in this docket. I understand that RUCO's job is to represent residential consumers, but the divergence between RUCO's position and financial reality exemplifies why we are concerned about the financial wellbeing of CCWC.

Specifically, in its response to CCWC's request for interim rate relief, RUCO argued that there is no basis for interim relief and, moreover, that the amount of CCWC's request was arbitrary. RUCO's Opposition to Motion for Approval of Interim Rates at pp. 6-7. In support of this assertion, RUCO took specific issue with CCWC's concern over its ability to attract capital:

> The company claims that interim rates will improve its ability to attract capital from its parent company. Motion, Direct Testimony of Robert Hanford at 8. There is no question that the Company's parent is in a position to infuse equity should it deem it necessary for the Company. The Company's parent, American States Water, had a recent market price of $33.80 compared to a 2008 book value of $17.75 per share. See attached Exhibit A - Value Line dated July 25, 2008. Its earnings growth is projected to improve throughout next year and it had higher adjusted earnings for 2007 compared to 2006. *Id.* and Exhibit B – American State's Water's Shareholder's Report. American States Water's projected return on equity for 2009 is 11% and its dividends have increased over the last 5 years. *Id.* Further, American States Water's Standard and Poor's credit rating was upgraded in August 2007 from "A-" with a "positive" outlook to "A" with a "stable" outlook. *Id.* The Company's parent is financially healthy and is a factor that the Commission should consider in its analysis. [*Id.*]

Q. HOW DOES THIS ARGUMENT FROM RUCO ILLUSTRATE YOUR CONCERNS?

A. In essence, RUCO appears to be taking the position that CCWC does not need to raise a sufficient level of revenues from its own operations in order to attract capital from investors because AWR can divert resources from its other operations. This argument raises a couple of very serious concerns on my part.

First, RUCO's position is entirely contrary to basic economics. RUCO would have AWR redirect capital from more profitable subsidiaries of AWR to CCWC because CCWC is not able to generate enough revenues to attract capital investors. This is completely counter-intuitive as evidenced by a simple question. Namely, why would any investor divert its capital resources away from more profitable investment opportunities in order to invest in an entity that is under-performing? If CCWC were a stand-alone company, it is my opinion that it would not be able to attract either debt or equity on its own.

RUCO needs to explain why AWR would invest in Arizona (where we are earning returns on equity somewhere less than 3.5%) when, as RUCO itself noted, we have the opportunity to earn a much higher return on our investments in California? RUCO may be correct that AWR has capital available to invest, but that fact alone does not mean that AWR can or will invest those funds in CCWC. RUCO's simplistic viewpoint ignores the fact that the board of directors and officers of AWR have a fiduciary obligation to maximize the return on invested capital for AWR's shareholders.

The second concern with RUCO's position is the underlying (but unstated) notion that AWR's profits from its operations in California should be subsidizing CCWC's customers. That is clearly what RUCO is proposing. AWR is not a charity. RUCO's position fails to recognize that we invest our shareholders'

capital with both an obligation to seek and an expectation of a return on our investment. If we cannot realize that expectation on our investment, we will likely have to seek recovery on that investment from other sources. It would be a very dangerous precedent, if not flatly contrary to the obligation to provide a fair return on rate base, for this Commission to adopt RUCO's position that California ratepayers should subsidize CCWC's Arizona customers.

In summary, CCWC's need for rate relief should be based on CCWC's financial circumstances, not GSWC's or AWR's as RUCO proposes.

Q. DOESN'T SOUND INVESTMENT REQUIRE DIVERSIFICATION OF INVESTMENTS TO HELP ALLEVIATE THE RISK OF ANY SINGLE INVESTMENT?

A. Yes, sound investment practice involves diversifying investments across a number of investment opportunities. But implicit in this concept is the idea that each investment carries with it the opportunity to earn an expected and reasonable level of return commensurate with that investment's particular risk. Our recent investment history in Arizona indicates that CCWC does not provide such an opportunity. A sound diversification strategy does not include making good investments in one area in order to offset bad investments in another area. Instead, the goal is to avoid or sell bad investments.

Q. SO FAR YOU HAVE SPOKEN PRIMARILY OF RUCO BEING OUT OF TOUCH WITH FINANCIAL REALITY. HOW DOES THIS RELATE MORE GENERALLY TO REGULATION OF INVESTOR-OWNED UTILITIES IN ARIZONA?

A. As I stated above, RUCO's arguments against the Company's request for interim rate relief are illustrative of what appears to be the trend in Arizona – delay rate relief as long as possible notwithstanding the utility's poor financial health.

CCWC's current financial circumstances and the present rate proceeding merely further our concerns.

In this case, I understand that we are still six or seven months away from a decision, even though CCWC's application was filed in September 2007. CCWC's current rates are based on a test year that ended December 31, 2003 – more than five years from when we can realistically hope to obtain rate relief in this case. Meanwhile, CCWC's operating expenses have continued to increase, and the Company has continued to invest in additional plant to ensure reliable service. When new rates are finally approved in this case, CCWC will be two years behind and have to file another rate case, just as CCWC was required to seek rate increases based on a 2006 test year after receiving rate increases in September 2005.

Q. HOW DO YOU SUGGEST THAT THE COMMISSION ADDRESS YOUR CONCERNS, BOTH IN THIS CASE AND IN GENERAL?

A. Put simply, the Commission needs to balance the interests of utility shareholders and rate payers by timely providing rate relief that provides both an adequate return on rate base and an adequate opportunity to actually earn that return. I respectfully suggest the result of failing to do so is bad for the financial health of the regulated utilities in Arizona.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

SPROWLS REBUTTAL EXHIBIT 1

Chaparral City Water Company

Financial Statements
December 31, 2006

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December 31, 2006

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors and Stockholder of
Chaparral City Water Company:

In our opinion, the accompanying balance sheet and statement of capitalization and the related statements of income, common stockholder's equity and cash flows present fairly, in all material respects, the financial position of Chaparral City Water Company (the "Company") at December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 26, 2007

Chaparral City Water Company
Balance Sheet
December 31, 2006

Assets	
Utility plant	$ 51,020,714
Less: accumulated depreciation	(14,947,296)
Construction work in progress	2,241,397
Net utility plant	38,314,815
Other Property and Investments	
Goodwill	11,613,874
Restricted cash	728,061
	12,341,935
Current Assets	
Cash and cash equivalents	391,430
Restricted cash	13,261
Accounts receivable, net of allowance of $25,483	350,897
Inter-company receivables from GSWC	31,050
Inter-company taxes receivable from AWR	1,022,857
Income tax receivable	3,031
Unbilled revenues	324,967
Materials and supplies	14,521
Prepaid expenses and other current assets	192,485
Deferred income taxes - current	35,751
Regulatory assets - current	71,000
Total current assets	2,451,250
Other Assets	
Debt issuance costs	424,010
Total assets	$ 53,532,010
Capitalization and Liabilities	
Common stockholder's equity	$ 26,179,180
Long-term debt, less current maturities	6,585,000
Total capitalization	32,764,180
Commitments and contingencies (Note 9)	
Current Liabilities	
Long-term debt, current	280,000
Accounts payable	308,239
Inter-company loan payable to AWR	1,400,000
Accrued employee expenses	85,679
Accrued property taxes	121,041
Accrued interest	34,790
Other	254,017
Total current liabilities	2,483,766
Other Credits	
Customer deposits	819,845
Advances for construction	6,557,243
Contributions in aid of construction, net	6,188,963
Deferred income taxes	4,070,137
Regulatory liabilities	587,825
Other	60,051
Total other credits	18,284,064
Total capitalization and liabilities	$ 53,532,010

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Capitalization
December 31, 2006

Common stockholder's equity	
Common stock, par value $10; 2,500,000 shares authorized, 460,314 shares issued and outstanding	$ 4,603,140
Additional paid-in capital	14,929,468
Retained earnings	6,646,572
	26,179,180
Long-term debt	
Industrial Development Authority Bonds	
Series 1997A serial bonds, due 1998 through 2007 (4% to 4.85%)	240,000
Series 1997A term bonds, due December 1, 2011 (5.20%)	1,000,000
Series 1997A term bonds, due December 1, 2022 (5.40%)	4,610,000
Series 1997B term bonds, due December 1, 2022 (5.30%)	1,015,000
Total long-term debt	6,865,000
Less: current maturities	(280,000)
Long-term debt, less current maturities	6,585,000
Total capitalization	$ 32,764,180

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Income
Year Ended December 31, 2006

Operating revenues	
Sales of water	$7,755,907
Operating expenses	
Purchased water	934,095
Power purchased for pumping	618,039
Other operating expenses	756,952
General and administrative expenses	1,983,106
Maintenance	319,024
Depreciation	1,632,458
Property and other taxes	286,304
	6,529,978
Operating Income	1,225,929
Other income (expense)	
Interest income	64,397
Interest expense	(543,433)
	(479,036)
Income from operations before income tax expense	746,893
Income tax expense	241,774
Net income	$ 505,119

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Changes in Common Stockholder's Equity
Year Ended December 31, 2006

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2006	$ 4,603,140	$14,925,242	$ 6,141,453	$25,669,835
Net income			505,119	505,119
Stock-based awards	-	4,226	-	4,226
Balance, December 31, 2006	$ 4,603,140	$14,929,468	$ 6,646,572	$26,179,180

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Cash Flows
Year Ended December 31, 2006

Cash flows from operating activities		
Net income	$	505,119
Adjustments for non-cash items		
Depreciation		1,632,458
Provision for doubtful accounts		11,835
Deferred income taxes		(131,512)
Tax benefit on goodwill		226,869
Amortization of debt issuance costs		26,501
Impairment loss		91,835
Stock-based compensation expense		1,836
Changes in operating assets and liabilities		
Accounts receivable		59,275
Unbilled revenues		13,943
Materials and supplies		2,508
Prepaid expenses and other current assets		(19,837)
Taxes receivable		(146,153)
Regulatory assets/liabilities		21,481
Other assets		122,243
Accounts payable		(42,939)
Inter-company receivables/payables		34,934
Customer deposits		(107,177)
Other liabilities		131,300
Net cash flows provided by operating activities		2,434,519
Cash flows from investing activities		
Capital expenditures		(2,283,627)
Change in restricted cash		(4,481)
Change in debt reserve fund		(4,941)
Net cash flows used in investing activities		(2,293,049)
Cash flows from financing activities		
Tax benefits from exercise of stock-based awards		2,390
Receipt of advances for and contributions in aid of construction		1,099,205
Refunds on advances for construction		(488,128)
Net change in inter-company borrowings		(600,000)
Repayments of long-term debt		(340,309)
Net cash flows used in financing activities		(326,842)
Decrease in cash and cash equivalents		(185,372)
Cash and cash equivalents at beginning of year		576,802
Cash and cash equivalents at end of year	$	391,430
Supplemental disclosure of cash flow information		
Interest paid	$	475,211
Income tax paid, net of refunds	$	290,180

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

Chaparral City Water Company ("CCWC") is a wholly owned subsidiary of American States Water Company ("AWR"). Prior to October 11, 2000, CCWC was a wholly owned subsidiary of MCO Properties Inc. ("MCO"). On October 10, 2000, AWR completed the acquisition of all the common stock of CCWC from MCO for an aggregate value of $31.2 million, including assumption of approximately $12 million in debt. The acquisition was accounted for as a purchase and the assets acquired and liabilities assumed have been recorded at their estimated fair values. CCWC is an Arizona public utility company engaged principally in the purchase, production, distribution and sale of water. The Company serves approximately 13,000 customers in Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. Regulated by the Arizona Corporation Commission ("ACC"), CCWC is required to provide service and grant credit to customers within its defined service area.

Basis of Presentation

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect (i) the reported amount of assets and liabilities, (ii) disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of revenues and expenses recognized during each period presented. Actual results could differ from those estimates.

Regulatory Accounting

The Company's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the rate-making policies of the ACC, and are maintained in accordance with the Uniform System of Accounts prescribed by the ACC. CCWC is subject to regulation by the ACC to the extent necessary to enable the ACC to determine that CCWC's rates constitute reasonable costs to its customers. Accordingly, CCWC is subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. CCWC does not use regulatory balancing accounts in its rate filings with the ACC, which would represent amounts due to or from its customers based on differences between actual costs and costs assumed in its rate structure, and accordingly, no such accounts are recorded in the accompanying financial statements. Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. The Company's cash and cash equivalents are held with financial institutions with high credit standings.

Restricted Cash
In accordance with the terms of its long-term debt agreements, CCWC is required to maintain amounts on deposit in a trust account (the Debt Service Reserve) for payment of principal and interest (Note 4). The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. These amounts are classified as "restricted cash" in the balance sheet.

At December 31, 2006, CCWC held $13,261 of restricted cash representing interest earned in excess of the required balance on the Debt Service Reserve related to the Industrial Development Authority. In accordance with the requirements of the bond indenture, this balance can only be used to pay the next regularly scheduled debt payment.

Accounts Receivable
Accounts receivable is reported on the balance sheet net of any allowance for doubtful accounts. The allowance is based on CCWC's evaluation of the receivable portfolio under current conditions and review of specific problems and such other factors that, in our judgment, deserve recognition in estimating losses.

Materials and Supplies
Materials and supplies are stated at the lower of cost or market. Cost is computed using average cost.

Utility Plant and Depreciation
CCWC capitalizes as utility plant the cost of additions and replacements of retirement units. Such costs include labor, material, and certain indirect charges.

Depreciation is computed utilizing the straight-line method at rates based on the estimated useful lives of the assets as prescribed by the ACC. Effective October 1, 2005, the ACC approved new depreciation rates for CCWC's utility plant. Depreciation expense, reflected as a percentage of the aggregate depreciable asset balances, was 3.4% in 2006. Expenditures for maintenance and repairs are expensed as incurred. Replaced or retired property costs are charged to the accumulated provision for depreciation.

Impairment of Long-Lived Assets
Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. CCWC would recognize an impairment loss only if the carrying value amount of a long-lived asset is not recoverable from its undiscounted cash flows. An impairment loss is measured as the excess of the carrying value over the fair market value of the long-lived asset. Management judgment is involved in both deciding if testing for recoverability is necessary and in estimating undiscounted cash flows. For the year ended December 31, 2006, an impairment loss of $91,835.

Goodwill
At December 31, 2006, CCWC had $11,613,874 of goodwill. The goodwill represents the difference between the aggregate purchase price and the fair value of CCWC's net assets acquired by AWR in October 2000. Goodwill is reduced on an ongoing basis to reflect the total tax benefit realized from amortizing, for tax-purposes, the excess of tax over book goodwill basis in accordance with SFAS No. 109, *Accounting for Income Taxes*. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually on December 31 and more frequently if circumstances indicate that it may be impaired. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value, using the terminal value method, of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The amount by which carrying value exceeds fair value represents the amount of goodwill impairment. The current year analysis indicated no impairment.

Revenue
CCWC records operating revenues when the service is provided to customers. Revenues include amounts billed to customers on a cycle basis based on meter reading for services provided and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period. Actual usage may vary from this estimate.

Advances for Construction & Contributions-in-aid-of-Construction
Advances for construction represent amounts advanced by developers, which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions. After all refunds are made, any remaining balance is transferred to contributions-in-aid of construction. During 2006, approximately $4.2 million of advances that expired were transferred to contributions-in-aid of construction. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

Debt Issuance Costs
Original debt issuance costs are capitalized and amortized over the lives of the respective issues.

New Accounting Pronouncements
Effective January 1, 2006, CCWC adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, which requires the recognition of compensation expense related to the fair value of stock-based compensation awards. The adoption of this new standard did not have a material effect on CCWC's financial statements.

Related Party Transactions
CCWC receives various services from its parent, AWR, and from Golden State Water Company ("GSWC"), a wholly owned subsidiary of AWR. In addition, AWR has an $85 million syndicated credit facility. AWR borrows under this facility and provides funds to CCWC in support of its operations. Amounts owed to AWR for borrowings under this facility total $1,400,000 as of December 31, 2006 and are included in CCWC's inter-company payables on the balance sheet. The interest rate charged to CCWC is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. As of December 31, 2006, intercompany receivables included $31,050 due from GSWC related to these allocations.

2. Regulatory Matters

In accordance with accounting principles for rate-regulated enterprises, CCWC records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets, less regulatory liabilities, included in the balance sheet are as follows as of December 31, 2006:

Deferred general rate case costs	$	195,250
Asset retirement obligations		47,925
Gain on settlement for removal of wells		(760,000)
	$	(516,825)

Deferred General Rate Case Costs:
Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

Asset Retirement Obligations:
Effective January 1, 2003, CCWC adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations"*. Because retirement costs have historically been recovered through rates at the time of retirement, upon implementing SFAS No. 143, the cumulative effect was reflected as a regulatory asset. CCWC will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

Gain on settlement for removal of wells:
Fountain Hills Sanitary District ("FHSD") is a political subdivision of the State of Arizona that provides sanitary sewer service to customers residing within CCWC's water service area. In connection with its sanitary system, FHSD constructed a recharge system whereby it recharges treated effluent through multiple aquifer storage and recovery wells. In order for FHSD to secure an Aquifer Protection Permit for its recharge system, FHSD requested CCWC to permanently cease using one of its wells. As a possible replacement for this well, FHSD constructed a new well adjacent to the community center ("Community Center Well"). However, this well was not able to produce an equivalent amount of water to CCWC's well that was taken out of production. Accordingly, in February 2005, CCWC entered into an agreement with FHSD whereby CCWC agreed to permanently remove from service this well and in return CCWC received a settlement fee of $1,520,000 from FHSD. Pursuant to the agreement, CCWC will: (i) permanently remove from service and cap this well, and cap another well which had never been used as a potable source of supply; (ii) relinquish any legal claim or interest that CCWC may otherwise possess in the Community Center Well; and (iii) grant an option to FHSD to acquire one of the wells at a future date at fair market value. CCWC has recognized a net gain of $760,000 related to this settlement agreement and has established a regulatory liability for the remaining $760,000 pending ACC review of this matter

3. Utility Plant

The following table shows the Company's utility plant by major class as of December 31, 2006:

Land	$ 271,857
Source of water supply	4,966,019
Pumping	3,323,855
Water treatment	8,275,225
Transmission and distribution	32,312,760
Other property and equipment	1,870,998
	51,020,714
Accumulated depreciation	(14,947,296)
Construction work in progress	2,241,397
	$ 38,314,815

4. Long-term Debt

Industrial Development Authority Bonds
Substantially all of utility plant is pledged as collateral for CCWC's Industrial Development Authority Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios; (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends. CCWC maintains a debt service reserve fund with a balance of $658,306 at December 31, 2006. Amounts are classified as non-current restricted cash on the balance sheet. The loan and trust agreement contains restrictive covenants, including the maintenance of a debt service coverage ratio of 2.0, as defined in the loan and trust agreement, calculated annually at year end. As of December 31, 2006, CCWC was in compliance with all covenants under the loan and trust agreement.

Repayment Contract
In 1984, CCWC entered into an agreement with the United States Bureau of Reclamation for construction of a delivery and storage system to transport Central Arizona Project ("CAP") water to CCWC's property (the "Delivery Agreement"). In connection therewith, a repayment obligation was incurred by CCWC related to construction costs plus interest. CCWC made the final payment on this obligation in 2006. Interest accrued at a rate of 3.34% per annum. The cost of the constructed assets is recorded as utility plant. Under the terms of the Delivery Agreement, CCWC retains the right to use the delivery and storage system for an unspecified time period conditional upon meeting certain obligations including making scheduled principal and interest repayments for the construction costs and operating and maintaining the system. The Delivery Agreement also provides that the United States Bureau of Reclamation retains ownership of the system. Pursuant to this Agreement, CCWC continues to maintain a debt service reserve fund with a balance of $69,755 at December 31, 2006. This amount is classified as part of non-current restricted cash on the balance sheet.

Maturities of long-term debt outstanding at December 31, 2006 are as follows:

2007	$ 280,000
2008	300,000
2009	310,000
2010	330,000
2011	345,000
Thereafter	5,300,000
	6,865,000
Less - current portion	(280,000)
	$ 6,585,000

5. Dividend Limitations

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately $6.6 million was available to pay dividends to AWR at December 31, 2006. Contractual restrictions are the most restrictive. There were no dividends distributed from CCWC to AWR in 2006.

6. Taxes on Income

CCWC is included in AWR's consolidated federal income tax return. CCWC files an Arizona state income tax return. CCWC's federal tax provision and liability are computed as if it filed a separate return. Income tax expense includes the current tax liability from operations, the change in deferred income taxes during the year, and the reduction in goodwill during the year (as discussed under "Goodwill"). CCWC applies the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires the use of an asset and liability approach in accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in CCWC's financial statements or tax returns.

The significant components of the deferred tax assets and liabilities as reflected in the balance sheet at December 31, 2006 were:

Deferred tax assets	
Contributions and advances	$ 1,672,015
Other property related	36,302
Other nonproperty related	65,717
	1,774,034
Deferred tax liabilities	
Goodwill	(3,119,603)
Fixed assets	(2,591,857)
Other property related	(6,605)
Other	(90,355)
	(5,808,420)
Accumulated deferred income taxes - net	$ (4,034,386)

The current and deferred components of income tax expense were as follows:

Current provision	
Federal	$ 146,267
State	150
Total current tax expense	146,417
Deferred provision	
Federal	(114,619)
State	(16,893)
Total deferred tax expense	(131,512)
Benefit applied to reduce goodwill	226,869
Total income tax expense	$ 241,774

The federal statutory rate differs from the effective rate primarily due to state taxes, net of federal benefit, and adjustments resulting from the completion in 2006 of the Internal Revenue Service and Joint Committee of Taxation reviews of an amended 2001 federal return filed in 2005.

7. Employee Benefit Plans

GSWC has a defined benefit plan (the "Plan") that provides eligible employees of GSWC and its affiliates, including CCWC, monthly benefits upon retirement based on average salaries and length of service. Pension cost of the Company is based on an allocation from GSWC of the total cost related to the Plan. The allocated pension cost for CCWC was $152,306 for the year ended December 31, 2006. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act ("ERISA"). All active employees are also offered medical, dental, and vision care benefits through various medical insurance plans.

CCWC is also included in GSWC's 401(k) Investment Incentive Program, under which employees of GSWC and its affiliates may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions. The Company contributions to the 401(k) plan for 2006 totaled $20,209.

8. Related Party Transactions

CCWC benefits from customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services provided and paid for by GSWC and reimbursed by CCWC. GSWC allocates these costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. The costs for these services, including allocated cost for the employee benefit plans discussed above, were $1,292,436 for the year ended December 31, 2006 and have been included in other operating expenses and general and administrative expenses.

9. Commitments and Contingencies

CCWC obtains its water supply from two operating wells and from Colorado River water delivered by the Central Arizona Project ("CAP"). The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition.

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources ("ADWR"), providing in part that, subject to its requirements, CCWC has a sufficient supply of groundwater and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years. On April 7, 2004 the ADWR issued a decision confirming that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 9,828 acre-feet per year for a minimum of 100 years.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District (the "District") through September 2033, and is entitled to take 6,978 acre feet of water per year from the CAP. The maintenance rate for such water delivered is set by the District and is subject to annual increases. The estimated remaining commitment under this contract is $5.3 million as of December 31, 2006 with an estimated annual payment of $195,000.

The Arizona Water Settlement Act was signed into law in December 2004. This legislation provides for the additional CAP allocation to CCWC in the amount of 1,931 acre-feet per year. In order to receive this additional allocation, CCWC must enter into a revised contract with the District. CCWC is working on an amendment with the District to purchase the 1,931 acre-feet of water per year of additional CAP water rights for an estimated amount of $1.1 million as of December 31, 2006. The price is subject to further adjustment and is expected to increase until final written agreement is executed, which is anticipated to be in 2007. Once a revised contract with the District is executed, CCWC expects to apply to the ADWR to modify and increase its designation of assured supply from 9,828 acre-feet per year to 11,759 acre-feet per year.

Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC has the physical capability to deliver water in excess of that which is currently accounted for in CCWC's assured water supply account.

CCWC is involved from time to time in claims and litigation, both as plaintiff and defendant, in the ordinary course of business. Management is of the opinion that the outcome of such litigation will not have a material adverse effect upon CCWC's results of operations, financial position or cash flows.

Chaparral City Water Company

Financial Statements
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December 31, 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071
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Report of Independent Auditors

To the Board of Directors and Stockholder of
Chaparral City Water Company:

In our opinion, the accompanying balance sheet and statement of capitalization and the related statements of income, common stockholder's equity and cash flows present fairly, in all material respects, the financial position of Chaparral City Water Company ("the Company") at December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 7, 2008

Chaparral City Water Company
Balance Sheet
December 31, 2007

Assets	
Utility plant	$ 59,065,283
Less: accumulated depreciation	(16,737,559)
Construction work in progress	946,533
Net utility plant	43,274,257
Other Property and Investments	
Goodwill	11,353,429
Restricted cash	728,775
	12,082,204
Current Assets	
Cash and cash equivalents	-
Restricted cash	14,443
Accounts receivable, net of allowance of $20,177	354,390
Inter-company receivables from GSWC	160,731
Inter-company taxes receivable from AWR	792,454
Unbilled revenues	333,846
Materials and supplies	13,908
Prepaid expenses and other current assets	157,116
Deferred income taxes - current	37,679
Regulatory assets - current	71,000
Total current assets	1,935,567
Other Assets	
Debt issuance costs	397,510
Total assets	$ 57,689,538
Capitalization and Liabilities	
Common stockholder's equity	$ 26,657,248
Long-term debt, less current maturities	6,285,000
Total capitalization	32,942,248
Commitments and contingencies (Note 9)	
Current Liabilities	
Long-term debt, current	300,000
Accounts payable	276,945
Bank overdrafts	39,510
Income taxes payable	4,779
Inter-company loan payable to AWR	1,650,000
Accrued employee expenses	97,317
Accrued property taxes	103,781
Accrued interest	31,369
Other	174,913
Total current liabilities	2,678,614
Other Credits	
Customer deposits	699,321
Advances for construction	5,562,045
Contributions in aid of construction, net	11,333,517
Deferred income taxes	3,666,654
Income taxes payable	164,712
Regulatory liabilities	557,144
Other	85,283
Total other credits	22,068,676
Total capitalization and liabilities	$ 57,689,538

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Capitalization
December 31, 2007

Common stockholder's equity	
Common stock, par value $10; 2,500,000 shares authorized,	
460,314 shares issued and outstanding	$ 4,603,140
Additional paid-in capital	14,946,900
Retained earnings	7,107,208
	26,657,248
Long-term debt	
Industrial Development Authority Bonds	
Series 1997A term bonds, due December 1, 2011 (5.20%)	1,000,000
Series 1997A term bonds, due December 1, 2022 (5.40%)	4,610,000
Series 1997B term bonds, due December 1, 2022 (5.30%)	975,000
Total long-term debt	6,585,000
Less: current maturities	(300,000)
Long-term debt, less current maturities	6,285,000
Total capitalization	$ 32,942,248

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Income
Year Ended December 31, 2007

Operating revenues	
Sales of water	$ 7,704,041
Operating expenses	
Purchased water	856,379
Power purchased for pumping	617,934
Other operating expenses	601,824
General and administrative expenses	1,940,670
Maintenance	537,446
Depreciation	1,684,820
Property and other taxes	274,451
	6,513,524
Operating income	1,190,517
Other income (expense)	
Interest income	49,322
Interest expense	(479,814)
	(430,492)
Income from operations before income tax expense	760,025
Income tax expense	295,012
Net income	$ 465,013

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Changes in Common Stockholder's Equity
Year Ended December 31, 2007

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2007	$4,603,140	$14,929,468	$ 6,646,572	$ 26,179,180
Cumulative effect of adopting FIN 48			(4,377)	(4,377)
Net income			465,013	465,013
Stock-based awards, net of tax effect	-	17,432	-	17,432
Balance, December 31, 2007	$4,603,140	$14,946,900	$ 7,107,208	$ 26,657,248

The accompanying notes are an integral part of these financial statements.

Chaparral City Water Company
Statement of Cash Flows
Year Ended December 31, 2007

Cash flows from operating activities	
Net income	$ 465,013
Adjustments for non-cash items:	
Depreciation	1,684,820
Provision for doubtful accounts	6,699
Deferred income taxes	(236,124)
Tax benefit on goodwill	260,445
Amortization of debt issuance costs	26,500
Stock-based compensation expense	3,664
Changes in operating assets and liabilities:	
Accounts receivable	(10,192)
Unbilled revenues	(8,879)
Materials and supplies	613
Prepaid expenses and other current assets	35,369
Taxes receivable/payable	240,833
Regulatory assets/liabilities	(30,681)
Other assets	19,649
Accounts payable	(31,294)
Inter-company receivables/payables	(129,681)
Customer deposits	(120,524)
Other liabilities	(3,660)
Net cash flows provided by operating activities	2,172,570
Cash flows from investing activities	
Capital expenditures	(2,848,217)
Change in restricted cash	(1,182)
Change in debt reserve fund	(714)
Net cash flows used in investing activities	(2,850,113)
Cash flows from financing activities	
Bank overdrafts	39,510
Tax benefits from exercise of stock-based awards	13,070
Receipt of advances for and contributions in aid of construction	463,756
Refunds on advances for construction	(200,223)
Net change in inter-company borrowings	250,000
Repayments of long-term debt	(280,000)
Net cash flows provided by financing activities	286,113
Decrease in cash and cash equivalents	(391,430)
Cash and cash equivalents at beginning of year	391,430
Cash and cash equivalents at end of year	$ -
Supplemental disclosure of cash flow information	
Interest paid	$ 442,103
Income tax paid, net of refunds	$ 16,788

The accompanying notes are an integral part of these financial statements.

1. **Summary of Significant Accounting Policies**

Nature of Operations

Chaparral City Water Company ("CCWC") is a wholly owned subsidiary of American States Water Company ("AWR"). Prior to October 11, 2000, CCWC was a wholly owned subsidiary of MCO Properties Inc. ("MCO"). On October 10, 2000, AWR completed the acquisition of all the common stock of CCWC from MCO for an aggregate value of $31.2 million, including assumption of approximately $12 million in debt. The acquisition was accounted for as a purchase and the assets acquired and liabilities assumed have been recorded at their estimated fair values. CCWC is an Arizona public utility company engaged principally in the purchase, production, distribution and sale of water. The Company serves approximately 13,000 customers in Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. Regulated by the Arizona Corporation Commission ("ACC"), CCWC is required to provide service and grant credit to customers within its defined service area.

Basis of Presentation

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect (i) the reported amount of assets and liabilities, (ii) disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of revenues and expenses recognized during each period presented. Actual results could differ from those estimates.

Regulatory Accounting

The Company's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the rate-making policies of the ACC, and are maintained in accordance with the Uniform System of Accounts prescribed by the ACC. CCWC is subject to regulation by the ACC to the extent necessary to enable the ACC to determine that CCWC's rates constitute reasonable costs to its customers. Accordingly, CCWC is subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. CCWC does not use regulatory balancing accounts in its rate filings with the ACC, which would represent amounts due to or from its customers based on differences between actual costs and costs assumed in its rate structure, and accordingly, no such accounts are recorded in the accompanying financial statements. Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. The Company's cash and cash equivalents are held with financial institutions with high credit standings.

Restricted Cash

In accordance with the terms of its long-term debt agreements, CCWC is required to maintain amounts on deposit in a trust account (the Debt Service Reserve) for payment of principal and interest (Note 4). The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. These amounts are classified as "restricted cash" in the balance sheet.

At December 31, 2007, CCWC held $14,443 of restricted cash representing interest earned in excess of the required balance on the Debt Service Reserve related to the Industrial Development Authority. In accordance with the requirements of the bond indenture, this balance can only be used to pay the next regularly scheduled debt payment.

Accounts Receivable
Accounts receivable is reported on the balance sheet net of any allowance for doubtful accounts. The allowance is based on CCWC's evaluation of the receivable portfolio under current conditions and review of specific problems and such other factors that, in our judgment, deserve recognition in estimating losses. During 2007, CCWC added $6,699 to the allowance for doubtful accounts and wrote-off $11,633, net of recoveries.

Materials and Supplies
Materials and supplies are stated at the lower of cost or market. Cost is computed using average cost.

Utility Plant and Depreciation
CCWC capitalizes as utility plant the cost of additions and replacements of retirement units. Such costs include labor, material, and certain indirect charges.

Depreciation is computed utilizing the straight-line method at rates based on the estimated useful lives of the assets as prescribed by the ACC. Effective October 1, 2005, the ACC approved new depreciation rates for CCWC's utility plant. Depreciation expense, reflected as a percentage of the aggregate depreciable asset balances, was 3.3% in 2007. Expenditures for maintenance and repairs are expensed as incurred. Replaced or retired property costs are charged to the accumulated provision for depreciation.

Impairment of Long-Lived Assets
Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* CCWC would recognize an impairment loss only if the carrying value amount of a long-lived asset is not recoverable from its undiscounted cash flows. An impairment loss is measured as the excess of the carrying value over the fair market value of the long-lived asset. Management judgment is involved in both deciding if testing for recoverability is necessary and in estimating undiscounted cash flows. For the year ended December 31, 2007, there was no impairment loss. Periodically, CCWC also reviews for possible impairment its utility plant in service in accordance with SFAS No. 90, *"Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs".* During 2007, there were no write-offs due to disallowances by the ACC.

Goodwill
At December 31, 2007, CCWC had $11,353,429 of goodwill. The goodwill represents the difference between the aggregate purchase price and the fair value of CCWC's net assets acquired by AWR in October 2000. Goodwill is reduced on an ongoing basis to reflect the total tax benefit realized from amortizing, for tax purposes, the excess of tax over book goodwill basis in accordance with SFAS No. 109, *Accounting for Income Taxes.* In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill is tested for impairment at least annually on December 31 and more frequently if circumstances indicate that it may be impaired. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value, using the terminal value method, of the related operations that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The amount by which carrying value exceeds fair value represents the amount of goodwill impairment. The current year analysis indicated no impairment.

Revenue
CCWC records operating revenues when the service is provided to customers. Revenues include amounts billed to customers on a cycle basis based on meter reading for services provided and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period. Actual usage may vary from this estimate.

Advances for Construction & Contributions-in-aid-of-Construction
Advances for construction represent amounts advanced by developers, which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions. After all refunds are made, any remaining balance is transferred to contributions-in-aid of construction. During 2007, $2,558,793 of advances that expired were transferred to contributions-in-aid of construction. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

Debt Issuance Costs
Original debt issuance costs are capitalized and amortized over the lives of the respective issues.

Related Party Transactions
CCWC receives various services from its parent, AWR, and from Golden State Water Company ("GSWC"), a wholly owned subsidiary of AWR. In addition, AWR has an $85 million syndicated credit facility. AWR borrows under this facility and provides funds to CCWC in support of its operations. Amounts owed to AWR for borrowings under this facility total $1,650,000 as of December 31, 2007 and are included in CCWC's inter-company payables on the balance sheet. The interest rate charged to CCWC is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. As of December 31, 2007, intercompany receivables included $160,731 due from GSWC related to these allocations.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "*Fair Value Measurements*". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. CCWC will implement the new standard effective January 1, 2008. CCWC is currently evaluating the impact, if any, that SFAS No. 157 may have on its future financial statements and disclosures. In February 2008 the FASB delayed the effective date of SFAS No. 157 for certain nonfinancial assets and liabilities until January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*". SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between "carrying value" and "fair value" at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements designed to facilitate comparison between companies that choose different measurement attributes for similar type assets and liabilities. SFAS No. 159 is effective for CCWC's fiscal year beginning January 1, 2008. CCWC is evaluating the potential impact of SFAS No. 159; however, this standard is not expected to have a material impact on CCWC's future financial statements.

In December 2007, the FASB issued SFAS No. 141(R) (revised 2007), "*Business Combinations*". SFAS No. 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations CCWC engages in will be recorded and disclosed following existing accounting standards until January 1, 2009.

In December 2007, the FASB also issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*". The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). CCWC is evaluating the potential impact of SFAS No. 160; however, this standard is not expected to have any material impact on CCWC's future financial statements and disclosures.

2. Regulatory Matters

In accordance with accounting principles for rate-regulated enterprises, CCWC records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets, less regulatory liabilities, included in the balance sheet are as follows as of December 31, 2007:

Deferred general rate case costs	$ 222,293
Asset retirement obligations	51,563
Gain on settlement for removal of wells	(760,000)
	$ (486,144)

Deferred General Rate Case Costs
Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for rate-making purposes.

Asset Retirement Obligations
Effective January 1, 2003, CCWC adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations"*. Because retirement costs have historically been recovered through rates at the time of retirement, upon implementing SFAS No. 143, the cumulative effect was reflected as a regulatory asset. CCWC will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

Gain on settlement for removal of wells
Fountain Hills Sanitary District ("FHSD") is a political subdivision of the State of Arizona that provides sanitary sewer service to customers residing within CCWC's water service area. In connection with its sanitary system, FHSD constructed a recharge system whereby it recharges treated effluent through multiple aquifer storage and recovery wells. In order for FHSD to secure an Aquifer Protection Permit for its recharge system, FHSD requested CCWC to permanently cease using one of its wells. As a possible replacement for this well, FHSD constructed a new well adjacent to the community center ("Community Center Well"). However, this well was not able to produce an equivalent amount of water to CCWC's well that was taken out of production. Accordingly, in February 2005, CCWC entered into an agreement with FHSD whereby CCWC agreed to permanently remove from service this well and in return CCWC received a settlement fee of $1,520,000 from FHSD. Pursuant to the agreement, CCWC will: (i) permanently remove from service and cap this well, and cap another well which had never been used as a potable source of supply; (ii) relinquish any legal claim or interest that CCWC may otherwise possess in the Community Center Well; and (iii) grant an option to FHSD to acquire one of the wells at a future date at fair market value. CCWC has recognized a net gain of $760,000 related to this settlement agreement and has established a regulatory liability for the remaining $760,000 pending ACC review of this matter.

3. Utility Plant

The following table shows the Company's utility plant by major class as of December 31, 2007:

Land	$ 271,857
Intangible assets	1,316,797
Source of water supply	5,023,466
Pumping	4,690,826
Water treatment	8,686,371
Transmission and distribution	37,217,186
Other property and equipment	1,858,780
	59,065,283
Accumulated depreciation	(16,737,559)
Construction work in progress	946,533
	$ 43,274,257

4. Long-term Debt

Industrial Development Authority Bonds
Substantially all of utility plant is pledged as collateral for CCWC's Industrial Development Authority Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios; (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends. CCWC maintains a debt service reserve fund with a balance of $655,760 at December 31, 2007. Amounts are classified as non-current restricted cash on the balance sheet. The loan and trust agreement contains restrictive covenants, including the maintenance of a debt service coverage ratio of 2.0, as defined in the loan and trust agreement, calculated annually at year end. As of December 31, 2007, CCWC was in compliance with all covenants under the loan and trust agreement.

Repayment Contract
In 1984, CCWC entered into an agreement with the United States Bureau of Reclamation for construction of a delivery and storage system to transport Central Arizona Project ("CAP") water to CCWC's property (the "Delivery Agreement"). In connection therewith, a repayment obligation was incurred by CCWC related to construction costs plus interest. CCWC made the final payment on this obligation in 2006. Interest accrued at a rate of 3.34% per annum. The cost of the constructed assets is recorded as utility plant. Under the terms of the Delivery Agreement, CCWC retains the right to use the delivery and storage system for an unspecified time period conditional upon meeting certain obligations including making scheduled principal and interest repayments for the construction costs and operating and maintaining the system. The Delivery Agreement also provides that the United States Bureau of Reclamation retains ownership of the system. Pursuant to this Agreement, CCWC continues to maintain a debt service reserve fund with a balance of $73,015 at December 31, 2007. This amount is classified as part of non-current restricted cash on the balance sheet.

Maturities of long-term debt outstanding at December 31, 2007 are as follows:

2008	$ 300,000
2009	310,000
2010	330,000
2011	345,000
2012	365,000
Thereafter	4,935,000
	6,585,000
Less - current portion	(300,000)
	$ 6,285,000

5. Dividend Limitations

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately $7.1 million was available to pay dividends to AWR at December 31, 2007. Contractual restrictions are the most restrictive. There were no dividends distributed from CCWC to AWR in 2007.

6. Taxes on Income

CCWC is included in AWR's consolidated federal income tax return. CCWC files an Arizona state income tax return. CCWC's federal tax provision and liability are computed as if it filed a separate return. Income tax expense includes the current tax liability from operations, the change in deferred income taxes during the year, and the reduction in goodwill during the year (as discussed under "Goodwill"). CCWC applies the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires the use of an asset and liability approach in accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in CCWC's financial statements or tax returns.

The significant components of the deferred tax assets and liabilities as reflected in the balance sheet at December 31, 2007 were:

Deferred tax assets	
Contributions and advances	$ 2,683,486
Other property-related	36,302
Other nonproperty-related	52,215
	2,772,003
Deferred tax liabilities	
Goodwill	(3,869,789)
Fixed assets	(2,409,055)
Other property-related	(8,116)
Other nonproperty-related	(114,018)
	(6,400,978)
Accumulated deferred income taxes - net	$ (3,628,975)

The current and deferred components of income tax expense were as follows:

Current provision	
Federal	$ 237,549
State	33,142
Total current tax expense	270,691
Deferred provision	
Federal	(209,074)
State	(27,050)
Total deferred tax expense	(236,124)
Benefit applied to reduce goodwill	260,445
Total income tax expense	$ 295,012

The federal statutory rate differs from the effective rate primarily due to state taxes, net of federal benefit.

In July 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, in May 2007, the FASB Staff Position ("FSP") issued FSP FIN 48-1, *"Definition of Settlement in FASB Interpretation No. 48"*, which amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Effective January 1, 2007, CCWC adopted FIN 48 and, as a result thereof, decreased its retained earnings by $4,377.

The following table provides a reconciliation of CCWC's unrecognized tax benefits at December 31, 2007.

Unrecognized tax benefits at January 1, 2007	None
Increases as a result of tax positions taken prior to 2007	—
Decreases as a result of tax positions taken prior to 2007	—
Increases as a result of tax positions taken during 2007	—
Decreases as a result of tax positions taken during 2007	—
Decreases relating to settlements with taxing authorities	—
Reductions as a result of lapses of statute-of-limitation periods	—
Unrecognized tax benefits at December 31, 2007	None
Portion of unrecognized-tax-benefit balance at December 31, 2007 that would affect the effective tax rate if recognized	None

With the adoption of FIN 48, CCWC continued its policy of classifying interest on income tax over/underpayments in interest income/expense and penalties in "other operating expenses." At December 31, 2007, CCWC included $26,253 of interest payables to taxing authorities in other liabilities (all as noncurrent). CCWC recognized $14,681 of interest expense to taxing authorities for the year ended December 31, 2007. At December 31, 2007, CCWC had no accruals for income-tax-related penalties and did not recognize any income-tax related penalties during the year ended December 31, 2007.

CCWC files federal and Arizona state income tax returns. The U.S. federal filings for the years 1997 through 1999 and 2002 came under examination during the first quarter of 2007 as a result of AWR having filed an amended 2002 return during the third quarter of 2006 for which Internal Revenue Service ("IRS") and Congressional Joint Committee of Taxation ("JCT") reviews are required. While the 2002 return was amended primarily with respect to changes to taxable income for entities other than CCWC included in the consolidated tax return, certain minor changes pertain to CCWC. CCWC is unable to anticipate when the IRS and JCT reviews will be concluded.

AWR's 2004 through 2006 tax years also remain subject to examination by the IRS and its 2003 through 2006 tax years remain subject to examination by the Arizona Department of Revenue.

7. Employee Benefit Plans

GSWC has a defined benefit plan (the "Plan") that provides eligible employees of GSWC and its affiliates, including CCWC, monthly benefits upon retirement based on average salaries and length of service. CCWC's pension cost is a percentage of the total cost based on CCWC's payroll as compared to the total payroll for employees of GSWC and its affiliates. The allocated pension cost for CCWC was $85,207 for the year ended December 31, 2007. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act ("ERISA"). All active employees are also offered medical, dental, and vision care benefits through various medical insurance plans.

CCWC is also included in GSWC's 401(k) Investment Incentive Program, under which employees of GSWC and its affiliates may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions. The Company contributions to the 401(k) plan for 2007 totaled $54,505.

8. Related Party Transactions

CCWC benefits from customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services provided and paid for by GSWC and reimbursed by CCWC. GSWC allocates these costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from customer numbers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. The costs for these services, including allocated cost for the employee benefit plans discussed above, were $749,402 for the year ended December 31, 2007 and have been included in other operating expenses and general and administrative expenses.

9. Commitments and Contingencies

CCWC obtains its water supply from two operating wells and from Colorado River water delivered by the Central Arizona Project ("CAP"). The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition.

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources ("ADWR"), providing in part that, subject to its requirements, CCWC has a sufficient supply of groundwater and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years. On April 7, 2004 the ADWR issued a decision confirming that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 9,828 acre-feet per year for a minimum of 100 years.

The Arizona Water Settlement Act was signed into law in December 2004. This legislation provides for the additional CAP allocation to CCWC in the amount of 1,931 acre-feet per year. In November 2007, a final written agreement was executed and CCWC paid approximately $1.3 million for this additional CAP water rights. CCWC will file an application with ADWR in 2008 to modify and increase its designation of assured supply from 9,828 acre-feet per year to 11,759 acre-feet per year.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District (the "District") and is entitled to take 8,909 acre feet of water per year from the CAP, including the additional allocation of 1,931 acre-feet per year discussed above. The maintenance rate for such water delivered is set by the District and is subject to annual changes. On March 28, 2008, the District published its new rate schedules. Based on the new rate schedules, CCWC's estimated remaining commitment under this contract is $588,000 as of December 31, 2007.

Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC has the physical capability to deliver water in excess of that which is currently accounted for in CCWC's assured water supply account.

CCWC is involved from time to time in claims and litigation, both as plaintiff and defendant, in the ordinary course of business. Management is of the opinion that the outcome of such litigation will not have a material adverse effect upon CCWC's results of operations, financial position or cash flows.

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT,

REVENUE REQUIREMENT, RATE DESIGN)

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02113A-07-0551

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT,

REVENUE REQUIREMENT, RATE DESIGN)

TABLE OF CONTENTS

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Thomas J. Bourassa and my business address is 139 W. Wood Drive, Phoenix, AZ 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application filed on September 26, 2007. There were two volumes, one addressing rate base, income statement and rate design, and the other addressing cost of capital.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and by the Residential Utilities Consumer Office ("RUCO"). More specifically, this first volume of my rebuttal testimony relates to rate base, income statement and rate design for Chaparral City Water Company ("Company" or "CCWC"). In a second, separate volume of my testimony, I also present an update to the Company's requested cost of capital as well as provide responses to Staff and RUCO on the cost of capital and rate of return applied to the fair value rate base, and the determination of operating income.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN ITS REBUTTAL FILING?

A. The Company is requesting an increase in revenues of $2,990,549, an increase of 39.85% over test year revenues for a total revenue requirement of $10,495,967.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested an increase in revenues of $3,063,400, an increase of 41.14% for a total revenue requirement of $10,509,828.

Q. SO THE REVENUE REQUIREMENT IN THE REBUTTAL FILING IS LOWER THAN IN THE DIRECT FILING?

A. Yes. The Company has adopted a number of adjustments recommended by Staff and/or RUCO, as well as proposed a number of adjustments of its own. However, the Company's proposed rebuttal rate of return is higher, primarily due to my updated cost of capital analysis. Still, by selecting a rebuttal cost of equity lower than my updated analysis supports, which I have done in an effort to reduce dispute, coupled with the rebuttal adjustments, our rebuttal revenue requirement is lower than in the direct filing.

Specifically, the Company's rebuttal filing reflects a decrease in proposed operating expenses of $84,663 to a total of $6,564,766. Similarly, due to various adjustments, CCWC's rebuttal Original Cost Rate Base ("OCRB"), Reproduction Cost Rate Base ("RCRB"), and Fair Value Rate Base ("FVRB") have decreased. The OCRB decreased by $74,450 from the direct filing to $22,663,316. The RCRB decreased by $1,863,863 to $32,871,183 and FVRB decreased by $969,157 to $27,767,249.

II. <u>REVENUE REQUIREMENT.</u>

Q. PLEASE COMPARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO.

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$10,509,828	$3,063,400	41.14%

Staff	$ 9,181,965	$1,735,265	23.30%
RUCO	$ 8,571,434	$1,062,786	14.15%
Company Rebuttal	$10,495,967	$2,299,057	39.85%

Q. HOW WAS THE INCREASE IN THE REVENUE REQUIREMENT DETERMINED?

A. The Company's calculation of the revenue requirement is shown on rebuttal schedule A-1. The increase in the revenue requirement starts with the FVRB. The Company's proposed rate of return is applied to the FVRB to determine the required operating income. The difference between the required operating income and the adjusted test year operating income is the operating income deficiency. The operating income deficiency is then multiplied by the revenue conversion factor to account for income taxes. The result is the increase in the revenue requirement. The revenue requirement is equal to the adjusted test year revenue plus the increase in the revenue requirement.

Q. WHAT IS THE COMPANY'S PROPOSED RATE OF RETURN?

A. 10.00%. This is based on the weighted average cost of capital. I discuss the Company's proposed rate of return and my cost of capital analysis in the second volume of my rebuttal testimony.

III. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	RCRB	FVRB
Company-Direct	$22,737,766	$34,735,046	$28,736,406
Staff	$21,644,877	$32,455,951	$27,050,414
RUCO	$21,328,051	$33,674,604	$27,501,327

Company Rebuttal	$22,663,316	$32,871,183	$27,767,249

A. Original Cost Rate Base.

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal schedules B-2, pages 2 through 6. Rebuttal schedule B-2, page 1, shows the rebuttal OCRB. Schedule B-2, page 2, summarizes the adjustments made to the OCRB.

Rebuttal OCRB adjustment number 1, as shown on B-2, page 3, adjusts plant-in-service and reflects adoption of several recommendations by both Staff and RUCO. There are 5 proposed adjustments to plant-in-service that are reflected in columns labeled as "A", "B", "C", "D", and "E". The first adjustment (column A) on B-2, page 3, corrects the plant-in-service balance to match the B-2 plant detail schedule included in the Company's direct filing. Staff recognizes, and the Company agrees, that $32,536 of plant was excluded from the plant-in-service balance shown on the Company's direct B-1 and B-2 schedules. The $32,536 was included in the Company's plant detail schedule B-2, pages 3a to 3c, but failed to get carried forward to the summary schedules B-1 and B-2, page 1. *See* Direct Testimony of Marvin E. Millsap ("Millsap Dt.") at 4-5. This error was disclosed during discovery. The $32,536 was properly included in the Company's direct RCRB plant-in-service amount.

Q. WHAT CONSTITUTES THE $32,536 ERROR TO OCRB PLANT-IN-SERVICE?

A. The Company had failed to record capitalized expenses from the prior rate case. *See* Decision No. 68176 (September 30, 2005) at 8. When I prepared the plant

additions and retirements schedule (Company Direct Schedule B-2, page 3a-3c), I started with the plant balance approved in the last rate case. As the Direct Schedule B-2, page 3c shows, the computed plant balance at the end of the test year (December 31, 2006) was $51,053,253. The B-2, page 1 ("Actual End of test Year"), reflects the Company's recorded amount of $51,020,714, a difference of $32,539. The $3 difference between the $32,536 and the $32,539 is due to rounding to whole dollar amounts on the Company's Direct Schedule B-2, page 3a to 3c. Putting this aside, there was no proposed direct filing adjustment to correct the discrepancy.

Q. DOES RUCO'S PROPOSED OCRB PLANT-IN-SERVICE RECOGNIZE THIS ERROR?

A. No, instead RUCO removes the $32,536 from RCRB plant-in-service claiming the amount was double counted. *See* Direct Testimony of Timothy J. Coley ("Coley Dt.") at 7 and 26. I do not agree with RUCO's adjustment and cannot find support for it.

Q. THANK YOU. PLEASE CONTINUE.

A. The second adjustment, included as part of rebuttal OCRB adjustment number 1 (column B), increases land and land rights by $1,280,000. This is the result of CCWC accepting Staff's recommended reclassification of these costs to deferred regulatory assets. Millsap Dt. at 15-18. In the Company's direct filing, the Company had proposed that the cost to acquire an additional 1,931 acre-feet ("a.f.") of Central Arizona Project ("CAP") water allocation be included in rate base as a deferred regulatory asset and amortized over 20 years. *See* Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 11.

Q. DOES STAFF PROPOSE THAT THE CAP COSTS BE SUBJECT TO AMORTIZATION?

A. No. As a land and land right, the cost would not be subject to amortization. Millsap Dt. 16. However, both CCWC and Staff are in agreement that the acquisition cost should be included in rate base. I will discuss operating expense adjustments related to the additional CAP allocation later in my testimony.

Q. WHAT IS RUCO'S POSITION ON THE ADDITIONAL CAP ALLOCATION COSTS?

A. RUCO excludes the entire $1,280,000 from rate base asserting that none of the additional CAP allocation is used and useful. Coley Dt. at 20-22. In his rebuttal testimony, Mr. Hanford explains why RUCO's position, that this additional allocation is not used and useful, is short-sighted and inconsistent with the realities of operating a water utility in Arizona. Rebuttal Testimony of Robert N. Hanford ("Hanford Rb.") at 5-7.

From a ratemaking standpoint, I agree. As Mr. Hanford explains, the acquisition was a one-time opportunity to acquire a fixed allocation. The additional allotment will allow the Company to further the goal of limiting use of ground water, and, if there is ever a curtailment of CAP water, the additional allocation will provide the Company with greater CAP water availability. For example, the Company's previous allocation was 6,978 a.f. With the additional 1,931 a.f., the Company's total allocation is 8,909 a.f. If CAP implements a 30% curtailment because of drought, the Company's CAP water availability at 6,978 a.f. would drop to 4,885 a.f., whereas at 8,909 a.f. the water availability would drop to 6,236 a.f. Any shortfall in the water supply needed to serve customers would have to be made up by pumping groundwater and/or through implementation of extreme conservation measures. Based on the example above

and the amount of CAP allocation utilized during the test year (all 6,978 a.f.), approximately 2,093 a.f. would need to be produced by pumping ground water (6,978 a.f. minus 4,885 a.f.) whereas with the additional allocation, approximately only 742 a.f. would need to be produced by pumping ground water.

The bottom line is that ratepayers benefit by the Company proactively securing an additional long-term water supply to meet the needs of its customers. This makes it used and useful and appropriately afforded rate base treatment in this case.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S PROPOSED OCRB RATE BASE ADJUSTMENTS.

A. The third adjustment, included as part of rebuttal OCRB adjustment number 1 (column C), adopts Staff's proposal to capitalize certain operating expenses (outside services) totaling $37,674 and RUCO's proposal to capitalize certain operating expenses (repairs and maintenance) totaling $43,217. Millsap Dt. at 24; Scott Dt. at 9; and Coley Dt. at 15-16.

The fourth adjustment, included as part of rebuttal OCRB adjustment number 1 (column D), adopts both Staff's and RUCO's proposal to retire wells 8 and 9 and water treatment facilities that are no longer in service. Millsap Dt. at 25-26; Scott Dt. at 7; and Coley Dt. at 4-5.

Q. IS THERE AGREEMENT BETWEEN THE PARTIES ON THE COSTS TO BE REMOVED FROM PLANT-IN-SERVICE?

A. No. There is slight disagreement between CCWC and RUCO on the cost of wells 8 and 9 – totaling $3,944. The Company proposes a total cost of $107,412, which reconciles to Staff's cost, whereas RUCO proposes costs of $103,468. *See* Staff Schedule MEM-8 and RUCO Schedule TJC-7. All of the parties are essentially in

agreement of the cost of the retired water treatment facilities, a total of $2,010,922 using Staff's rounded number.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF REBUTTAL ADJUSTMENTS TO OCRB.

A. The fifth adjustment included as part of rebuttal OCRB adjustment number 1 (column E), adopts Staff's proposal to reclassify certain costs from one plant category to another. Scott Dt. 8-9. The net impact on plant-in-service is zero.

Rebuttal OCRB adjustment number 2, as shown on B-2, page 4, adjusts accumulated depreciation reflecting changes to accumulated depreciation from the plant-in-service adjustments adopted in rebuttal OCRB adjustment number 1. There are 3 proposed adjustments to accumulated depreciation that are reflected in the columns labeled as "A", "B", and "C".

The first adjustment, included as part of rebuttal OCRB adjustment number 2 (column A), increases accumulated depreciation for the capitalized expenses proposed in rebuttal OCRB adjustment 1 (column B). Additional accumulated depreciation is computed using the half-year convention. Staff makes a similar adjustment for its proposed capitalized expenses while RUCO does not appear to make this adjustment.

The second adjustment, included as part of rebuttal OCRB adjustment number 2 (column B), removes the costs of the retired wells 8 and 9 and the water treatment facilities from accumulated depreciation. This adjustment corresponds to the plant-in-service adjustment in rebuttal OCRB adjustment 1 (column C). All the parties make similar adjustments for the retirements although, as I previously testified, RUCO has a lower cost for the retired wells.

The third adjustment, included as part of rebuttal OCRB adjustment number 2 (column C), adjusts accumulated depreciation for the reclassified plant

costs reflected in rebuttal OCRB adjustment number 1 (column E). Computed accumulated depreciation (based on the year in service and the depreciation rate for the old plant account) is removed from the old plant account and computed accumulated depreciation (based on the year in service and the depreciation rate for the new plant account) is added to the new plant account. The half-year convention is used in the computations.

Q. ARE THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION THE SAME AS STAFF'S?

A. No. Staff's adjustments net to zero, whereas the Company's adjustments net to $2,875. One obvious difference in the accumulated depreciation adjustment is that Staff adjusts accumulated depreciation downward by $6,487 for the $34,062 for account 303 – Land and Land Rights reclassified to account 320 – Water Treatment Equipment. *See* Staff Schedule MEM-11, line 53. However, no accumulated depreciation was included for this cost in the Company's direct filing. Another obvious difference is Staff's computed depreciation of $2,908 for the reclassified $34,062. My computed accumulated depreciation is lower at $2,482.

Q. HOW DID YOU COMPUTE THE $2,482?

A. The $34,062 of cost was added in 2004. The depreciation rate for the 320 – Water Treatment and Equipment account from December 2003 through the end of September 2005 was 2.5% (the date of Decision 68176 was September 30, 2005). From October 2005 through the December 2006 the authorized depreciation rate was 3.33% (based on Decision 68176). Using the half-year convention, depreciation for the $34,062 of cost would be as follows:

2004 $34,062 times 2.5% times 0.5 or $426 (rounded)

2005 $34,062 times 2.5% times 9/12 or $639 (rounded)

2005 $34,062 times 3.33% times 3/12 or $284 (rounded)

2006 $34,062 times 3.33% times 1 or $1,134 (rounded)

These amounts total $2,483 – a $1 difference from the $2,482 due to rounding.

Q. DID YOU USE A SIMILAR COMPUTATION METHOD FOR ALL OTHER COMPUTED DEPRECIATION AMOUNTS REFLECTED IN THE COMPANY'S SCHEDULES?

A. Yes. I believe that the Company's proposed accumulated depreciation adjustments follow the correct methodology and results in amounts that should be adopted, should the plant-in-service reclassification proposal be adopted.

Q. OKAY. PLEASE CONTINUE.

A. Rebuttal OCRB adjustment number 3, as shown on Rebuttal Schedule B-2, page 5, reflects the adoption of Staff's proposed adjustments to the general office ("GO") plant. Millsap Dt. at 20. There is only one adjustment included as part of rebuttal OCRB adjustment number 3 reflected in the column labeled as "A". This adjustment removes $420,000 for a CPUC management audit from account 302 – Other Intangible Plant, removes $820,254 for of a water management plant unrelated to CCWC from account 339 – Other Plant and Misc. Equipment, and removes $274,001 for "luxury vehicles" from account 341 – Transportation Equipment.

The Company's proposed allocation factor for the GO plant is 2.8%. This is the recommendation made by RUCO. Coley Dt. at 17.

Q WHAT ALLOCATION RATE DOES STAFF PROPOSE?

A. Staff's proposed allocation factor is 4.0%. The 4.0% is based on an updated 4-factor computation prepared by Staff using 2006 information. Millsap Dt. at 19. Arguably, the 4-factor allocation rate proposed by Staff is more correctly matched to the test year. However, the Company has chosen to adopt the 2.8% in the

instant case, which results in a lower revenue requirement, in an effort to eliminate disputed issues between the parties.

Q. PLEASE CONTINUE.

A. Rebuttal OCRB adjustment number 4, as shown on B-2, page 6, adjusts accumulated depreciation based on the GO plant-in-service adjustments proposed in rebuttal OCRB adjustment number 3. There is only one adjustment included as part of rebuttal OCRB adjustment number 4 reflected in the column labeled as "A". Staff proposes a similar adjustment to accumulated depreciation. *See* Staff Schedule MEM-8, page 2 of 3. However, Staff understates its adjustment to accumulated depreciation for transportation equipment.

Q. PLEASE EXPLAIN.

A. The accumulated depreciation adjustment should equal the cost of the vehicles removed, or $274,001, because those vehicles were considered fully depreciated in the Company's direct filing. Staff's computed accumulated depreciation adjustment for transportation equipment is $43,667 — $230,334 less. GO transportation equipment was fully depreciated according to the Company's direct filing. Proof of this can be found in the Company's Direct Schedule B-2, pages 3 and 4 where GO transportation equipment total $552,718 and GO accumulated depreciation for transportation equipment is $552,718, respectively.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE REBUTTAL ADJUSTMENTS TO RATE BASE.

A. Rebuttal OCRB adjustment number 4, removes the CAP allocation cost from deferred regulatory assets. As I previously testified, Staff recommends, and the Company has adopted, the reclassification of the CAP acquisition costs to plant-in-service account 303 – Land and Land rights.

Rebuttal OCRB adjustment number 6 adopts RUCO's proposed negative cash working capital of $111,606. Coley Dt. at 22-24. Both RUCO and the Company are in agreement on the amount of working capital of $95,400, which includes Prepayments in the amount of $192,485 and Materials and Supplies of $14,521 and cash working capital of negative $111,606.

Q. DID RUCO PREPARE A LEAD-LAG STUDY?

A. Yes, the Company has accepted this study in a further effort to eliminate issues in dispute.

Q. WHAT IS STAFF'S RECOMMENDATION FOR WORKING CAPITAL?

A. Zero. Millsap Dt. at 22-23. Staff not only removes Prepayments of $192,485 and Material and Supplies of 14,521 from rate base, but also Unamortized Debt Issuance costs of $424,010 as part of its working capital adjustment. *Id.* Mr. Millsap asserts that working capital should be zero because the Company did not file a lead-lag study to determine cash working capital. *Id.* While the Company provided a computation of cash working capital using the formula method, it proposed zero cash working capital.

Q. ARE UNAMORTIZED DEBT ISSUANCE COSTS A PART OF WORKING CAPITAL?

A. No, they are not, however, the Company included these costs in rate base in the instant case in order to properly match the rate base with the cost of debt in the rate of return. Unamortized debt issuance costs, when amortized, increase interest expense.

Q. WILL THE FAILURE TO INCLUDE THE UNAMORTIZED DEBT ISSUANCE COSTS CREATE A MISMATCH BETWEEN THE RATE CASE AND THE RATE OF RETURN?

A. Yes. Failure to recognize the unamortized debt issuance costs in rate base, as Staff has done, results in a mismatch between the rate of return and the rate base. Staff admits that the debt issuance costs are a "below the line" expense (when amortized) and are the same as interest expense and should be paid from the return on the rate base portion. Millsap Dt. 23. However, Staff did not adjust the cost of debt in their return. Thus, the mismatch.

Q. DID THE COMPANY SYNCHRONIZE INTEREST EXPENSE WITH THE FVRB IN ITS DIRECT FILING?

A. Yes. Bourassa Dt. at 18.

Q. ARE THERE ANY OTHER ADJUSTMENTS PROPOSED BY STAFF THAT THE COMPANY HAS NOT ACCEPTED?

A. Yes. The Company does not agree with Staff on the treatment of the proceeds from a settlement between the Company and the Fountain Hills Sanitary District ("FHSD") involving two wells owned by the Company. The proceeds equaled $1,520,000. Staff proposes that it's computed unamortized portion of the entire settlement proceeds, or $1,216,000, be included in rate base as a deduction. Millsap Dt. at 15. This adjustment penalizes CCWC for taking the risk to pursue a settlement with FHSD, therefore, the Company continues to propose an equal sharing of the settlement proceeds with ratepayers, and continues to include only one-half of the unamortized portion, or $646,000 in rate base as a deduction.

Q. DO THE COMPANY AND STAFF AGREE ON THE AMORTIZATION PERIOD OF 10 YEARS?

A. Yes. However, I computed amortization for 2005 and 2006 using a half-year convention, whereas Staff computed amortization for 2005 and 2006 using a full-year convention. Staff's unamortized balance would have been 1,292,000 rather than $1,218,000 had they used half-year convention for computing amortization.

Q. DIDN'T CCWC ASSERT THAT IT PROPOSED THIS TREATMENT CONSISTENT WITH PAST COMMISSION DECISIONS?

A. Yes, in the Arizona Water Company-Eastern Group rate case, the Commission rejected the utility's proposal to retain all the settlement proceeds for its own benefit, and Staff's proposal to treat the settlement proceeds in a manner that inured to the sole benefit of the ratepayers. Decision No. 66849 (March 19, 2004). In adopting RUCO's proposal that the settlement proceeds be shared equally between ratepayers and the utility, the Commission found that an equal sharing of the settlement proceeds "provides a reasonable balance between the rights of shareholders and ratepayers and will provide the Company with a sufficient incentive to pursue future settlement or litigation of claims that the Company and its customers may be entitled to receive." *Id.* at 35.

Q. DOES STAFF DISAGREE THAT DECISION NO. 66849 SUPPORTS CCWC'S PROPOSED TREATMENT OF THE FHSD SETTLEMENT PROCEEDS?

A. Yes. For one thing, Staff appears to be of the view that no prior Commission decision has value as precedent. *See* Staff Response to Company data request 1.45, attached hereto as **Bourassa Rebuttal Exhibit 1**. I will leave it to the lawyers to argue over whether the Commission can issue inconsistent decisions, but I would note that in reaching its conclusion in the Arizona Water rate case the Commission expressly relied upon a prior case for TEP as support for its position. Decision No. 66849 at 35. Beyond that, Staff's sole claim is that the Arizona Water case is not precedent because in that case the utility received replacement water and a settlement payment. Millsap Dt. at 15. Staff does not explain, nor do I see how this makes a difference. For starters, as Mr. Hanford explains in his rebuttal testimony, the Company was not even using the water from Well No. 8 to

provide potable water service to ratepayers. Second, the Commission rejected Staff's recommendation to deprive shareholders of any benefit from the settlement proceeds in that case to strike a fair balance and create an incentive to act in the interests of ratepayers as well as shareholders. The Commission should do the same thing in this case.

B. Reconstruction Cost Rate Base.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S REBUTTAL ADJUSTMENTS TO THE RCRB?

A. The Company's rebuttal rate base adjustments to RCRB are shown on Rebuttal Schedules B-3, pages 2 through 6. Rebuttal Schedule B-3, page 1, shows the rebuttal RCRB. The rebuttal B-3 adjustments reflect the rebuttal B-2 adjustments at the reconstruction cost level with one exception. The adjustment in column B of rebuttal RCRB adjustment number 1 adopts RUCO's proposed RCN value correction. Coley Dt. at 25-26. The correction is the result of my using an incorrect Handy-Whitman index for year 2004 and account 304 – Structures and Improvements. The Company's proposed downward adjustment of $17,805 matches RUCO's proposed adjustment. *Id.*

Q. DOES THE COMPANY CONTINUE TO PROPOSE A 50/50 WEIGHTING OF OCRB AND RCRB AS ITS FVRB?

A. Yes. Rebuttal schedule B-1 shows the OCRB, RCRB, and the FVRB.

IV. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-13. The rebuttal income statement with adjustments is shown on rebuttal schedule C-1.

In rebuttal adjustment number one, the depreciation expense is annualized, reflecting the plant-in-service adjustments discussed above. Depreciation expense has decreased from the Company's direct filing due to the plant-in-service adjustments I discussed above.

Q. DO ALL PARTIES RECOMMEND THE SAME DEPRECIATION RATES?

A. Yes.

Q. IS STAFF'S DEPRECIATION EXPENSE DIFFERENT THAN THE COMPANY'S?

A. Yes, it is lower. Putting aside the capitalized expenses recommended by RUCO and adopted by the Company, reclassifications of plant that are not in Staff's plant-in-service balance, the primary difference in depreciation between Staff and the Company is due to the differences in our respective depreciable plant-in-service balances. For example, both the Company and Staff agree to the original cost plant balance for account 331 – Distribution Reservoirs and Standpipe of $18,953,054. *Compare* Staff Schedule MEM-16, line 15, with the Company's rebuttal schedule C-2, page 1, line 18. Depreciation for this account, based on the $18,953,053 and a depreciation rate of 2.0%, should be $379,061 ($18,953,053 times 2%). However, Staff uses the figure $17,389,634 to compute depreciation rather than the $18,953,053. Staff's depreciation is $349,013 ($17,389,634 times 2%). Since the Company depreciates its plant by plant group or account, the proper ratemaking approach is to depreciate the plant by group (account). Staff does not explain why it utilized a lower base figure for computing depreciation.

Another example of a difference in the base figure used to compute depreciation is for the account 347 – Miscellaneous Equipment. Both the Company and Staff agree to the original cost plant balance for this account of $0. Yet, Staff uses the figure $106,542. *Compare* Staff Schedule MEM-16, line 28, with the Company's Rebuttal Schedule C-2, page 1, line 31, column labeled "Rebuttal Original Cost". Staff recommended the $106,542 be reclassified from the account 347 – Miscellaneous Equipment to account 339 – Other Plant and Miscellaneous Equipment (*See* Staff Schedule MEM-8, page 3 of 3, lines 159 and 160), which the Company adopted in its rebuttal OCRB adjustment number 1. Again, Staff does not explain why it utilized the $106,542 in computing depreciation expense.

Q. IS RUCO'S PROPOSED DEPRECIATION EXPENSE DIFFERENT THAN THE COMPANY'S?

A. Yes, it is higher. This reason for this is that RUCO's depreciation computations do not include the plant-in-service adjustments, in particular the plant reclassifications, proposed by Staff and adopted by the Company.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS.

A. The Company accepts Staff's method of computing property taxes. This is the same method that the Commission has consistently used in past cases. Bourassa Dt. at 14. This method includes two years of adjusted revenues plus one year of proposed revenues. Using this methodology, I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate that was used in the direct filing. Rebuttal adjustment number 2 reflects the adjustment using the Company's rebuttal proposed revenues.

Q. HAVE YOU PROPOSED A CHANGE TO THE ASSESSMENT RATIO?

A. Yes. The Company is recommending an assessment ratio of 22% instead of the 23% ratio utilized in the Company's direct filing. The 23% ratio, also used by Staff, is the assessment ratio that will be used for computing 2008 property taxes. The 22% will be used for the 2009 property tax year, and since this is now a known and measurable change, I have made the additional adjustment.

Q. WHAT ABOUT RUCO'S POSITION ON PROPERTY TAX EXPENSE?

A. RUCO has finally modified its past method of computing property taxes, which exclusively used historical year revenues to compute property taxes and was repeatedly rejected by the Commission. RUCO now proposes to use two historical years (2004 and 2005) and one year of RUCO's proposed revenues. Coley Dt. at 38-39; RUCO Schedule TJC-33. Mr. Coley also provides testimony as to an alternative method that utilizes the last known and measurable year (2008) of property tax expense with an additional adjustment to account for RUCO's proposed level of revenues. Coley Dt. at 40. But RUCO does not explain how the additional adjustment would be computed.

Q. IS RUCO NOW FOLLOWING THE COMMISSION'S WELL-ESTABLISHED METHODOLOGY?

A. No, because RUCO utilizes 2004 and 2005 revenues and ignores 2006 revenues. The rates in this case will go into effect sometime in 2009 and 2006 revenues have already been included in the property tax valuation for 2007 reflected in the property tax bill the Company already received in September 2007. And, the 2007 revenues and 2006 revenues have already been included in the 2008 property tax valuation reflected in the property tax bill the Company received in September 2008. In other words, RUCO's property tax expense level continues to ensure that the full impact of revenue increases on property tax expense will not be recognized. So, it is two-steps forward, but one step back for RUCO, so to speak.

Q. WHAT ABOUT RUCO'S CLAIM THAT THE COMPANY HAS "OVER RECOVERED" PROPERTY TAXES SINCE THE LAST RATE CASE?

A. This claim is flawed for a number of reasons. First, RUCO's claim seems inconsistent with its position that you cannot look at single expenses in isolation because some expenses go up after a rate case and some go down. *See* RUCO's response to Company data request 1.48, attached hereto as **Bourassa Rebuttal Exhibit 2**. Since CCWC did not earn its authorized return in the first full year the new rates were in effect, the same year as the test year in this case, we know that the net impact of expense increases outpaced any decreases. Therefore, the Company did not over recover in any sense.

Second, RUCO's claim that the Company over recovered property taxes by more than $300,000 is misleading. Coley Dt. at 38. For one thing, the new rates did not go into effect until October 2005, making RUCO's use of data going back to 2004 totally inappropriate. Additionally, the actual level of property tax expense incurred has changed since the last rate case for reasons that have nothing to do with the methodology used by this Commission in the past. Instead, in 2005, a bill was introduced into the Arizona Legislature to reduce the assessment ratio on Class One property from 25% to 20% over 10 years (of ½% per year for 10 years) starting in 2006 (HB 2779). Revisions to the property tax assessment ratio reduction time frame were made in the final bill passed by the Arizona Legislature. Now codified in A.R.S. §42-15001, the assessment ratio for Class One property will decline from 25% to 20% starting in 2006 and going through 2011 tax year. After property tax year 2011, the property tax rate will remain at 20%. The changes to the assessment ratio were not contemplated in the property tax computation in the last rate case. An assessment ratio of 25% was utilized. This was the known and measurable assessment ratio at the time rates were set. The

assessment ratio in the instant case is 22% based on the ratio that will be in effect for the 2009 property tax year.

Likewise, property tax rates have also changed since the computation performed in the last case. In the last rate case, a property tax rate of 9.3587% was utilized. Again, the property tax rate was the known and measurable rate at the time rates were set. The property tax rate in 2006, and utilized in the Company's direct filing, was 7.7913%. If the Commission were to approve adjuster mechanisms for certain expenses, like many other states do, these types of changes could be addressed between rate cases. Meanwhile, RUCO is misleading the Commission by attempting to argue that there is still something wrong with the Commission's well-established methodology based on the actual facts and circumstances.

Q. WHAT IS THE PROPERTY TAX RATE UTILIZED IN THE COMPANY'S REBUTTAL PROPERTY TAX COMPUTATION?

A. 6.9159%. This is the 2008 property tax rate and the most current known and measurable property tax rate.

Q. WHY DIDN'T THE COMPANY PROPOSE AN ASSESSMENT RATIO OF 20% IN THE INSTANT CASE?

A. First, the Company is already proposing to use an assessment ratio three years outside of the test year to set the assessment ratio used in the computation. Second, and more importantly, the property tax rate employed in the property tax computation could go up, offsetting any gains from a lower assessment ratio. It could also go down as it did since the last rate case. By way of illustration, the property tax rate for 2007 was 6.6505%. While the 2007 property tax rate is lower than the rate for 2006, it is also lower than the rate for 2008. The problem is that future changes to tax rates are not known and measurable at this time.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Just to reiterate that there still remains a sound basis for the methodology this Commission has consistently utilized. Like income taxes, which are also based on the amount of revenue the utility realizes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the authorized return on rate base. For this reason, since the new ADOR methodology was adopted several years ago, the Commission has repeatedly approved the use of two years of adjusted test year revenue and one year of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates. Bourassa Dt. at 14.

Q. DID YOU CORRECT THE NET BOOK VALUE FOR TRANSPORTATION EQUIPMENT IN THE COMPANY'S REBUTTAL FILING PROPERTY TAX COMPUTATION?

A. Yes. RUCO witness, Mr. Coley, pointed this error out (Coley Dt. at 39) and it was corrected. The net book value of transportation equipment used in the property tax computation (rebuttal schedule C-2, page 2) matches RUCO's amount of $474,679.

Q. THANK YOU. WOULD YOU PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Rebuttal adjustment 3 increases rate case expense. The Company's rebuttal proposed rate case expense is $538,511 amortized over 3 years. There are two components to this expense. The first component is the proposed rate case expense for the instant case in the amount of $280,000. This remains the same as in the Company's direct filing. The second component is rate case expense for the appeal of Decision 68176 (the "Appeal") and the Remand Proceeding ("Remand") (Decision 70441 (July 28, 2008)). The Company is requesting approximately one-

half of the amount it expended, or $258,511. I have previously testified in the remand case regarding rate case expense. *See* Supplemental Testimony of Thomas J. Bourassa ("Bourassa Rmd. Supp.") in Docket No. W-02113A-07-0551. Staff and RUCO have reviewed supporting documentation for the amounts expended and I am not aware of any dispute over the amounts the Company actually incurred.

Q. DOES THE COMPANY STILL WISH TO RECOVER RATE CASE EXPENSE FOR THE APPEAL AND REMAND VIA A SURCHARGE?

A. No, we have determined that it now makes more sense to simply roll these expenses into the total award of rate case expense in this rate case. This change simplifies the issue and may help to eliminate issues between the parties.

Q. IS THERE A BASIS FOR SEEKING RECOVERY OF THE REMAND RATE CASE EXPENSE IN THE INSTANT CASE?

A. Yes. The Commission allowed the Company to seek recovery in this case. Decision 70441 at 39.

Q. WHAT HAPPENED TO THE UNRECOVERED RATE CASE EXPENSE FROM THE 2003 RATE CASE?

A. We have dropped this request. Not because we agree with Staff's or RUCO's reasons for opposing recovery of unamortized rate case expense. Instead, because the instant case has taken longer than expected, there will be only a small unamortized rate case expense balance by the time this proceeding is completed sometime in May or June 2009. To eliminate issue any dispute, CCWC is willing to forego recovery of this unamortized amount.

Q. DO YOU AGREE WITH STAFF'S VIEW THAT A "NORMALIZED" AMOUNT OF RATE CASE EXPENSE SHOULD BE INCLUDED IN OPERATING EXPENSES?

A. No. Because rate case expense is incurred outside the test year and for the specific purpose of obtaining rate relief, I believe rate case expense should be treated like a deferred regulatory asset. Like other regulatory assets (*e.g.*, plant-in-service), the costs of deferred regulatory assets are recovered over time. Presumably, if the amortization period for rate case expense (as with depreciation expense for plant-in-service) approximates the time between when new rates are set, the utility will recover the expense in full with neither an over collection nor under collection of the expense.

Q. COULDN'T A UTILITY OVER RECOVER RATE CASE EXPENSE IF IT TOOK LONGER THAN THE AMORTIZATION PERIOD TO FILE FOR NEW RATES?

A. It is possible, but this has not happened in the instant case. The Company was granted new rates at the end of September 2005 and filed for new rates nearly two years later. If this case had progressed timely and not been delayed, new rates would have been implemented sometime in November/December 2008. Thus, three years would have elapsed between new rates, yet the $285,000 of rate case expenses the Company was allowed in Decision No. 68176 was amortized over 4 years.

Besides, a chance of "over" or "under" recovery does not alter the view that rate case expense is a deferred regulatory asset. The problem is minimizing any over or under recovery and this is a matter of timing. Utilities can "over" recover on other regulatory assets if a long enough period of time elapses between rate cases. By way of illustration, take transportation equipment.

Transportation equipment is typically depreciated over 5 years. Assume a utility buys a new vehicle during a test year and files a rate case. The utility will get 1/5 of the cost included in the revenue requirement as depreciation expense.

Assume further that the utility then files a second rate case in 3 years. The utility will still get 1/5 of the cost in the revenue requirement as depreciation expense. Finally, assume that after the second rate case the utility continues to use the vehicle for the next 5 years and then files a third rate case. The vehicle would have been fully depreciated by the end of year 6, which occurred between the second and third rate case, but the revenue requirement would still include the depreciation expense included in the revenue requirement from the second rate case. The utility could be said to have over collected for at least 2 years.

Q. WHAT AMOUNT OF RATE CASE EXPENSE IS STAFF RECOMMENDING FOR THIS RATE CASE?

A. $150,000 "normalized" over 3 years. Millsap Dt. at 31-33. Staff also recommends recovery of $100,000 for the Appeal and Remand rate case expense. *Id.*

Q. WHAT JUSTIFICATION DOES STAFF PROVIDE FOR REDUCING RATE CASE EXPENSE FOR THE APPEAL AND REMAND BY MORE THAN $150,000?

A. Staff argues that the Company only agreed to seek $100,000 for the Appeal and Remand. Millsap Dt. at 32. While the Company did seek only $100,000 previously, that request based on estimates at the outset of the Remand proceeding. That request was opposed by Staff, and the Commission told the Company to seek its recovery of rate case expense for the Appeal and Remand in this case. When we went back to prepare that request it became clear that $100,000 was simply inadequate given how much the Company was forced to incur as a result of the Court ordered remand following its finding that the Commission violated the Arizona Constitution.

Q. HOW DID THE COMPANY COME UP WITH ITS REQUESTED $258,511 IN RATE CASE EXPENSE FOR THE APPEAL AND REMAND?

A. The Company incurred $100,000 for the Appeal, which we divided in half because it prevailed on only one of the two issues on appeal. To that, we added $8,176 for CCWC's costs in the Remand as those costs were incurred primarily to meet Commission filing and other requirements. The Company's expert witness costs were incurred primarily in response to the positions taken by Staff's and RUCO's expert witnesses, so we feel recovering eighty percent (80%) of those costs is appropriate ($105,853 x 80%=$84,682.40). *Id.* No cost for CCWC's witness Ernie Gisler was included. Finally, we believe that $120,000 for legal expenses for the Remand proceeding (roughly 40% of the amount actually incurred), is reasonable. The total of all this is $258,511. This leaves the Company absorbing more than a quarter million dollars of rate case expense for the Appeal and Remand. This is explained in even more detail in my Supplemental Testimony.

Q. THANK YOU MR. BOURASSA. COULD YOU NOW EXPLAIN STAFF'S BASIS RECOMMENDING ONLY $150,000 FOR RATE CASE EXPENSE FOR THIS RATE CASE?

A. According to Mr. Millsap, Staff's recommendation is based on an analysis of "rate case expenses approved by the Commission for other comparable sized utilities." Millsap Dt. at 32. According to Mr. Millsap, these comparable utilities include "Empire District Electric Company, Peoples Natural Gas, Western Resources and One OK." *See* Staff response to Company data request 1.27, which is attached to Mr. Hanford's testimony as **Hanford Rebuttal Exhibit 1**.

Q. ARE THESE ARIZONA WATER AND SEWER UTILITIES REGULATED BY THE COMMISSION?

A. No, they appear to be electric and gas companies regulated by the public utility commission in Kansas. But Staff provides nothing to support the comparison—like the size of the utilities, the amount of rate case expense or a comparison of the

process used in Kansas to that followed in Arizona. I guess all I can really say is "Dorothy, we are not in Kansas".

Q. DIDN'T STAFF LOOK AT ANY ARIZONA UTILITIES?

A. In the same data request response citing the Kansas four, Mr. Millsap references rate cases for Arizona-American, Arizona Water and Pine Water Company. Again, however, Staff provides no explanation of how these rate cases compare to this one or why they provide a basis for reducing the Company's requested rate case expense by $130,000. I worked on the Pine Water case Staff refers to, Docket No. 03-0279. In that case, Pine Water, a small water utility with roughly 2000 customers, received $200,000 of rate case expense through a settlement between the parties. *See* Commission Decision No. 67166 (August 10, 2004). Given the impacts of inflation, and the fact that CCWC is about 6.5 times the size of Pine Water, rate case expense in this case should be at least $1 million.

Q. HAVE YOU CONSIDERED AWARDS OF RATE CASE EXPENSE IN ANY OTHER CASES, MR. BOURASSA?

A. Yes, in fact I can respectfully suggest that this analysis is simple. In the last rate case for CCWC, the Company sought and was awarded rate case expense of $285,000. Certainly the Company is a "comparable-sized utility" relative to itself, and that case was processed several years ago. With the impacts of inflation we have all become familiar with due to the use of FVRB, we can surely assume that the costs for the same utility processing a similar rate case would now be higher. Yet, we have sought $5000 less than CCWC was awarded in that last case.

When these two levels of rate case expense are compared, to cite just one example, with the Arizona Water – Eastern Group case I discussed earlier with respect to the treatment of settlement proceeds, in which case the Commission approved rate case expense of $250,000, it isn't hard to portray the Company's

request as reasonable, and Staff's recommendation as unreasonable. Simply assuming an inflation rate of 2%, the 2004 costs would be higher by over 8%, meaning that the comparable cost for Arizona Water – Eastern Group case would be $270,000 today. I also would note that approximately 18 months later the Commission awarded $250,000 of rate case expense for Arizona Water Company's-Western Group rate case in Decision No. 68302 (November 14, 2005). It is important to note, however, that in these two other rate cases the Commission recognized that Arizona water utilized in-house regulatory staff greatly reducing the amount of rate case expense incurred.

Q. WHAT IS RUCO'S POSITION ON RATE CASE EXPENSE?

A. RUCO has not modified the Company request for rate case expense of $280,000 for the instant case. RUCO recommends no recovery of costs for the Appeal and Remand. *See* Direct Testimony of William A. Rigsby ("Rigsby Dt.") at 6. Besides asserting that the cost of the appeal and remand is excessive, RUCO believes that because it was a "business decision" to appeal Decision 68176, the shareholder should bear the cost. *Id.* RUCO acknowledges that the Company sought relief from a Commission decision in which the Court of Appeals found that the Commission acted contrary to Arizona law. Further, Remand was ordered by the Court of Appeals. Apparently, RUCO believes that if a utility seeks relief from an unlawful Commission decision in order to allow it to reach just and reasonable rates, that utility should not be entitled to recovery.

Q. HOW MUCH RATE CASE EXPENSE FOR THE INSTANT CASE HAS THE COMPANY INCURRED THROUGH SEPTEMBER OF 2008?

A. Over $230,000. With the costs of two more rounds of testimony (including this rebuttal testimony), several days of evidentiary hearings, closing briefs, and an Open Meeting yet to be incurred, the Company is on track to exceed its request of

$280,000. As Mr. Hanford testifies, the Company expects to absorb a significant amount of rate case expense by capping its request at $280,000 for this case, again, illustrating that the request is very reasonable. *See* Hanford Rb. at 8-10.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS.

A. The Company has revised its revenue annualization. The revision to annualized revenues is reflected in rebuttal adjustment number 4. As RUCO correctly points out, the Company utilized actual 2007 water use data as well as estimates in the golf course annualization computations in its direct filing. Coley Dt. at 45. Estimates were used because the actual water use information was not available at the time the Company filed its rate application in September 2007. Now that a full year of water use data is available for 2007, the revenue annualization includes a full year of actual data.

Q. IS THE COMPANY'S REVENUE ANNUALIZATION ADJUSTMENT THE SAME AS RUCO?

A. No. The Company's revenues annualization is lower by approximately $3,600.

Q. DID STAFF PROPOSE ANY CHANGE TO THE COMPANY'S REVENUE ANNUALIZATION?

A. No.

Q. PLEASE CONTINUE.

A. Rebuttal adjustment number 5 removes the amortization of the CAP allocation from operating expense. As discussed previously, the CAP allocation costs have been reclassified to account 303 – Land and Land Rights. Land and land rights are not subject to amortization.

Rebuttal adjustment number 6 removes from expense amounts which were reclassified to capital in rebuttal OCRB adjustment number 1 (column B).

Rebuttal adjustment number 7 reduces water testing expense to the "normalized" amount recommended by Staff. Millsap Dt. 37 and Scott Dt. at 19-22.

Rebuttal adjustment number 8 reduces purchased water expense. This adjustment reflects a reduction in the CAP water M&I (capital) costs related to the additional CAP allocation. Because Staff found half of the additional CAP allocation used and useful, the Company proposes only half of the annual CAP M&I costs. Both Staff and the Company are in agreement on the total M&I charges in purchased water expense. However, the Company's purchased water adjustment is over $10,000 less than Staff's due to the fact that Staff does not reflect higher CAP water deliveries from the revision made to the revenue annualization. However, the Company's purchased water adjustment is over $10,000 less than Staff's due to the fact that Staff does not reflect the higher CAP water deliveries from the revision made to the revenue annualization, once the 2007 data was available on sales to the golf courses.

Q. WHY IS RUCO'S PURCHASED WATER EXPENSE LOWER THAN THE COMPANY'S?

A. Because RUCO does not include any CAP M&I charges for the additional CAP allocation of 1,931 a.f. As I testified previously, RUCO's position is that none of the additional CAP allocation is used and useful and has recommended no recovery of the CAP M&I charges.

Q. IF THE COMPANY IS NOT RECOVERING ALL OF THE ANNUAL M&I CHARGES FOR THE ADDITIONAL CAP ALLOCATION, WHAT SHOULD BE THE TREATMENT OF THE UNRECOVERED COSTS?

A. The Company should record the unrecovered M&I costs as a deferred regulatory asset. In a subsequent rate case, the Company may seek recovery of the deferred

charges assuming the balance of the CAP allocation is used and useful at that time.

Q. OKAY. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE REBUTTAL ADJUSTMENTS TO THE INCOME STATEMENT.

A. Rebuttal adjustment number 10 increases miscellaneous expense for allocated general office ("GO") expenses following Staff's recommendation. As discussed above in relation to rate base, Staff recommends an allocation factor of 4.0% based on an updated 4-factor method prepared by Staff. Millsap Dt. at 29. Staff did not agree with the 3.74% allocation factor the Company used in its direct filing because it was based on data as of September 2005 and was not properly matched to the test year. *Id.*

Rebuttal adjustment number 11 synchronizes interest expense with the Company's rebuttal FVRB. The weighted cost of debt from rebuttal schedule D-1 is multiplied by the rebuttal FVRB contained on rebuttal schedule B-1 to derive the interest expense for computation of the income taxes. All the parties agree to interest synchronization with rate base to determine interest expense. However, RUCO and Staff interest synchronize with OCRB, whereas the Company uses FVRB. Rebuttal adjustment number 11 reflects the interest synchronization with the Company's rebuttal FVRB.

Q. WHY DOES THE COMPANY USE FVRB TO INTEREST SYNCHRONIZE?

A. Because this is the rate base upon which the Company seeks to have the revenue requirement determined.

Q. WHAT EFFECT, IF ANY, DOES THIS HAVE ON OPERATING EXPENSES?

A. The FVRB is higher than OCRB. This means the interest expense is higher and, in turn, income taxes are lower. Thus, operating expenses and the revenue requirement are lower than if OCRB is used.

Q. ARE THERE ANY OTHER REBUTTAL ADJUSTMENTS?

A. Yes, rebuttal adjustment 13 reflects the proposed increase in income taxes on adjusted test year expenses.

Q. ARE THERE ANY OTHER ADJUSTMENTS FROM RUCO AND/OR STAFF THAT THE COMPANY DOES NOT ACCEPT THAT YOU WOULD LIKE TO ADDRESS?

A. Yes. The Company disagrees with Staff's proposed operating expense adjustments to chemicals, repairs and maintenance, and insurance because these adjustments are based on averaging the test year with historical years. RUCO also proposes to adjust miscellaneous expense by averaging the test year with historical years. Staff claims averaging mitigates any extenuating circumstances which may have caused fluctuations in chemicals and repairs and maintenance expense. Millsap Dt. at 33 and 34. RUCO makes a similar argument. Coley Dt. at 41.

Q. HAVE STAFF OR RUCO IDENTIFIED ANY EXTENUATING CIRCUMSTANCES TO JUSTIFY USE OF AN AVERAGE?

A. No.

Q. WHY DO YOU DISAGREE WITH THE USE OF AVERAGES?

A. I generally disagree with use of averages as a method of normalizing expenses. Surrounding facts and circumstances must justify their use. I have found that only in limited cases, based on the evidence, can they be justified. Averaging does not reflect a known and measurable change to the test year. It is, at best, a guess. Averaging as a means of normalizing an expense is also subjective with respect to

which expenses are averaged and which years (historical or future) are included in the average. Averaging with historical years is also backward looking.

To illustrate the subjective nature of normalizing by averaging, consider that in the prior case, Staff proposed averaging to normalize outside services, office supplies, transportation expense, and miscellaneous expense. In all three cases, Staff used the test year and two historical years in the average. In the instant case, Staff is proposing to average chemicals, repairs and maintenance, and insurance expense. In addition, Staff uses the test year and two historical years (2004 and 2005) to normalize chemicals and repairs and maintenance expense, while using the test year, 3 historical years (2003, 2004, and 2005), and 1 future year (2007) to normalize insurance expense.

Consider also that RUCO adjusts repairs and maintenance based upon a known and measurable change (capitalized expenses) while Staff proposes to normalize repairs and maintenance by averaging. Similarly, RUCO is proposing to normalize miscellaneous expense by averaging, while Staff adjusts miscellaneous expense based on a known and measurable change (revised GO allocation factor).

In other words, there is too much subjectivity in this mish-mash of adjustments and it is not good ratemaking. If we are going to use the historical test year, with all of its flaws, we shouldn't just discard based on the presumption something is wrong with the test year in the absence of evidence that actually shows "extenuating" circumstances. This is especially true in this case given that we are living in a time when the costs of nearly everything have and are increasing.

V. RATE DESIGN.

Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A. The monthly charges at proposed rates are listed below.

All Classes

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
3/4	$ 18.30	0
1	$ 30.50	0
1 1 /2	$ 61.00	0
2	$ 97.60	0
3	$ 195.20	0
4	$ 305.00	0
6	$ 610.00	0
8	$ 1,128.50	0
10	$ 1,586.00	0
12	$ 2,803.00	0
Fire Hydrants used for Irrigation	$ 196.50	0
Fire Hydrants basic Service	$ 0.00	0
Fire Sprinkler	$ 10.00	0

The commodity charges and tiers by meter size are:

Residential, Commercial and Industrial Class

Meter Size	Tier (gallons)	Charge per 1,000 gallons
3/4	1 to 3,000	$ 2.281
	3,001 to 9,000	$ 3.392
	Over 10,000	$ 4.078

	1	1 to 24,000	$ 3.392
		Over 24,000	$ 4.078
	1 1/2	1 to 60,000	$ 3.392
		Over 60,000	$ 4.078
	2	1 to 100,000	$ 3.392
		Over 100,000	$ 4.078
	3	1 to 225,000	$ 3.392
		Over 225,000	$ 4.078
	4	1 to 350,000	$ 3.392
		Over 350,000	$ 4.078
	6	1 to 725,000	$ 3.392
		Over 725,000	$ 4.078
	8	1 to 1,125,000	$ 3.392
		Over 1,125,000	$ 4.078
	10	1 to 1,500,000	$ 3.392
		Over 1,500,000	$ 4.078
	12	1 to 2,250,000	$ 3.392
		Over 2,250,000	$ 4.078
	Irrigation Class		
	All Meter Sizes	All gallons	$3.392
	Fire Hydrant Irrigation and Construction Class		
	All Meter Sizes	All gallons	$3.392
	Standpipe (Fire Hydrants)		
	All Meter Sizes	All gallons	$3.392
	Fire Sprinklers		

All Meter Sizes	All gallons	$3.392

Q. DO STAFF AND RUCO PROPOSE SIMILAR RATE DESIGNS?

A. Yes.

Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED RATES ON AN AVERAGE ¾ INCH METERED RESIDENTIAL CUSTOMER?

A. The present monthly bill for a ¾ inch metered residential customer using an average of 8,450 gallons is $32.38. The proposed monthly bill for a ¾ inch metered residential customer using an average of 8,450 gallons is $43.63 – an increase of $11.26 or 34.77% over the present rates.

Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED RATES ON AN AVERAGE 1 INCH METERED RESIDENTIAL CUSTOMER?

A. The present monthly bill for a 1 inch metered residential customer using an average of 10,095 gallons is $48.14. The proposed monthly bill for a 1 inch metered residential customer using an average of 10,095 gallons is $64.74 – an increase of $16.60 or 34.49% over the present rates.

Q. ARE THERE ANY CHANGES TO THE MISCELLANEOUS SERVICE CHARGES?

A. No.

Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON MISCELLANEOUS CHARGES?

A. Yes.

Q. ARE THERE ANY CHANGES TO THE METER AND SERVICE LINE INSTALLATION CHARGES?

A. No.

Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON METER AND SERVICE LINE INSTALLATION CHARGES?

A. Yes.

Q. MR. BOURASSA, YOU MENTIONED LIVING IN INFLATIONARY TIMES WHERE EVERYTHING COSTS MORE. IS CCWC WILLING TO UTILIZE A LOW INCOME TARIFF TO HELP THOSE THAT TRULY CANNOT AFFORD THE INCREASED COST OF WATER UTILITY SERVICE?

A. Yes. We have discussed the concept with both Staff and RUCO and they are supportive of the Company proposing such a tariff. We were unable to complete the proposed tariff before this rebuttal filing was due, but we hope to supplemental the filing with a proposed tariff shortly. The tariff will provide for reduced costs to those that qualify based on income, but it will require the other customers to subsidize the low income ratepayers.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, although I do wish to note that my silence on any aspect of Staff and/or RUCO's direct filings is not necessarily intended to signal CCWC's acceptance.

2126168.1

BOURASSA REBUTTAL EXHIBIT 1

STAFF'S RESPONSE TO THE
FIRST SET OF DATA REQUESTS
FROM CHAPARRAL CITY WATER COMPANY
TO THE ARIZONA CORPORATION COMMISSION STAFF
Docket No. W-02113A-07-0551
October 16, 2008

1.45. Provide citation to any ACC precedent or other authority supporting Staff's position that 100% of the proceeds from the Company's settlement with Fountain Hills Sanitary District be recognized in a manner that benefits ratepayers.

Response: Objection: this data request is overbroad and burdensome, requests information that is not maintained in the normal course of business and would be time-consuming and burdensome to compile. Notwithstanding the foregoing objection, Staff would provide the following response: Staff is not aware of any similar situation. Each Commission decision is based on the facts unique to that underlying docket. Each ACC decision stands on its own merits and no ACC decision creates a precedent.

Respondent: Marvin Millsap

BOURASSA REBUTTAL EXHIBIT 2

1.48 Admit that the costs of operating a utility have generally increased due to inflation since 2003.

Response

Admit, in a general sense, completely isolating inflation, there is a general upwards trend. RUCO does not agree that expenses generally increase from one year to the next. Expenses typically increase and decrease. While one element of an expense account may increase, another element of the expense account may decrease causing the total expense account to actually decrease from one year to the next.

BOURASSA REBUTTAL SCHEDULES

Chaparral City Water Company
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 27,767,249
2		
3	Adjusted Operating Income	940,244
4		
5	Current Rate of Return	3.39%
6		
7	Required Operating Income	$ 2,776,725
8		
9	Required Rate of Return on Fair Value Rate Base	10.00%
10		
11	Operating Income Deficiency	$ 1,836,481
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	$ 2,990,957
17		
18	Adjusted Test Year Revenues	$ 7,505,010
19	Increase	$ 2,990,957
20	Proposed Revenue Requirement	$ 10,495,967
21	% Increase over adjusted test year revenues	39.85%
22		

23	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
25	**Residential, Commerical, Industrial**				
26	3/4 Inch	$ 3,524,021	$ 4,747,487	$ 1,223,467	34.72%
27	1 Inch	2,441,283	3,283,297	842,014	34.49%
28	1.5 Inch	172,583	232,176	59,594	34.53%
29	2 Inch	345,894	464,696	118,802	34.35%
30	3 Inch	24,229	32,492	8,263	34.10%
31	4 Inch	34,290	46,128	11,838	34.52%
32	**Irrigation**				
33	3/4 Inch	69,200	130,820	61,620	89.05%
34	1 Inch	178,745	350,299	171,554	95.98%
35	1.5 Inch	134,012	260,613	126,602	94.47%
36	2 Inch	161,987	314,013	152,026	93.85%
37	4 Inch	152,769	322,747	169,977	111.26%
38	6 Inch	322,475	687,598	365,123	113.23%
39	**FH/Construction**				
40	3/4 Inch	181	259	77	42.77%
41	1 Inch	1,357	2,328	971	71.57%
42	2 Inch	646	1,099	453	70.11%
43	3 Inch	84,704	123,818	39,114	46.18%
44	4 Inch	11,424	16,104	4,679	40.96%
45	**Fire Sprinkler**	5,770	5,774	3	0.06%
46	**Reconciling Amt H-1 to C-1**	8,050	923	(7,127)	
47	**Subtotal**	$ 7,673,618	$ 11,022,669	$ 3,349,051	43.64%
48	**Revenue Annualization**	(250,897)	(608,991)	(358,094)	142.73%
49	Miscellaneous Revenues	82,289	82,289	-	0.00%
50	**Total of Water Revenues (a)**	$ 7,505,010	$ 10,495,967	$ 2,990,957	39.85%
51					

52 SUPPORTING SCHEDULES:
53 Rebuttal B-1
54 Rebuttal C-1
55 Rebuttal C-3
56 Rebuttal H-1
57

Chaparral City Water Company
Test Year Ended December 31, 2006
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	RCND Rate base	Fair Value Rate Base (50/50)
1				
2	Gross Utility Plant in Service	$ 50,908,634	$ 78,136,365	$ 64,522,499
3	Less: Accumulated Depreciation	13,696,614	23,732,066	18,714,340
4				
5	Net Utility Plant in Service	$ 37,212,020	$ 54,404,299	$ 45,808,159
6				
7	Less:			
8	Advances in Aid of			
9	Construction	6,557,243	10,225,334	8,391,288
10	Contributions in Aid of			
11	Construction - Net of amortization	6,119,129	9,435,452	7,777,291
12	Customer Meter Deposits	819,845	819,845	819,845
13	Deferred Income Taxes & Credits	925,896	925,896	925,896
14	Investment tax Credits	-	-	-
15	Well Settlement Proceeds	646,000	646,000	646,000
16				
17	Plus:			
18	Unamortized Debt Issuance			
19	Costs	424,010	424,010	424,010
20	Prepayments	-	-	-
21	Materials and Supplies	-	-	-
22	Deferred Regulatory Assets	-	-	-
23	Allowance for Working Capital	95,400	95,400	95,400
24				
25				
26	Total Rate Base	$ 22,663,316	$ 32,871,183	$ 27,767,249
27				
28				
29				
30	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
31	Rebuttal B-2		Rebuttal A-1	
32	Rebuttal B-3			
33	Rebuttal B-5			
34				
35				

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Direct Adjusted at End of Test Year	Adjustment Amount	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 51,771,885	(863,252)	$ 50,908,634
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	15,877,022	(2,180,408)	13,696,614
7				
8				
9	Net Utility Plant			
10	in Service	$ 35,894,864	-	$ 37,212,020
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	6,557,243	-	6,557,243
15				
16	Contributions in Aid of			
17	Construction - Net	6,119,129	-	6,119,129
18				
19	Customer Meter Deposits	819,845	-	819,845
20	Deferred Income Taxes	925,896	-	925,896
21	Investment Tax Credits	-	-	-
22	Well Settlement Proceeds	646,000	-	646,000
23				
24	**Plus:**			
25	Unamortized Debt Issuance			
26	Costs	424,010	-	424,010
27	Prepayments	192,485	(192,485)	-
28	Materials and Supplies	14,521	(14,521)	-
29	Deferred Regulatory Assets	1,280,000	(1,280,000)	-
30	Working capital	-	95,400	95,400
31				
32				
33	Total	$ 22,737,766		$ 22,663,316
34				
35				
36				
37	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
38	Rebuttal B-2, page 1			Rebuttal B-1
39				
40				
41				
42				
43				
44				
45				
46				

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Direct Adjusted at End of Test Year	ADJUSTMENT 1 Plant-in-Service Adjustment	2 Accumulated Depreciation Adjustment	3 GO Plant Adjustment	4 GO Plant Accum Depr Adjustment	5 Reclass CAP Allocation	6 Cash Working Capital	Rebuttal at end of Test Year
1	Gross Utility								
2	Plant in Service	$ 51,771,885	$ (724,909)		$ (138,343)				$ 50,908,634
3									
4	**Less:**								
5	Accumulated								
6	Depreciation	15,877,022		(2,112,197)		(68,211)			13,696,614
7									
8									
9	Net Utility Plant								
10	in Service	$ 35,894,864							$ 37,212,020
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	6,557,243							6,557,243
15									
16	Contributions in Aid of								
17	Construction - Net	6,119,129							6,119,129
18									
19	Customer Meter Deposits	819,845							819,845
20	Deferred Income Taxes	925,896							925,896
21	Investment Tax Credits	-							-
22	Well Settlement Proceeds	646,000							646,000
23									
24	**Plus:**								
25	Unamortized Debt Issuance								
26	Costs	424,010							424,010
27	Prepayments	192,485						(192,485)	-
28	Materials and Supplies	14,521						(14,521)	-
29	Deferred Regulatory Assets	1,280,000					(1,280,000)		-
30	Working capital	-						95,400	95,400
31									
32									
33	Total	$ 22,737,766	$ (724,909)	$(2,112,197)	$ (138,343)	$ (68,211)	$(1,280,000)	$ (111,606)	$ 22,663,316
34									
35									
36									
37	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
38	Rebuttal B-2, pages 3-6								Rebuttal B-1
39									
40									

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.				A	B	C	D	E	
1	Plant-in-Service								
2				Correction to match			Retire		
3	Account		Direct	Direct Filing B-2	CAP	Capitalize	Wells 8 & 9	Reclassify	Rebuttal
4	No.	Description	Original Cost	Plant Detail[1]	Allocation[2]	Expenses[3]	& Wtr Treatment[4]	Plant[5]	Original Cost
5	301	Organization Cost	-						-
6	302	Franchise Cost	-						-
7	303	Land and Land Rights	271,858		1,280,000				1,551,858
8	304	Structures and Improvements	1,518,648			11,590	(596)		1,529,642
9	305	Collecting and Impounding Res.	6,548					(6,548)	-
10	306	Lake River and Other Intakes	-						-
11	307	Wells and Springs	332,065				(106,816)	(65,622)	159,627
12	308	Infiltration Galleries and Tunnels	-						-
13	309	Supply Mains	-						-
14	310	Power Generation Equipment	-						-
15	311	Electric Pumping Equipment	1,483,614	23,294		26,084		55,253	1,588,246
16	320	Water Treatment Equipment	7,757,814	5,686			(2,010,923)	34,062	5,786,639
17	330	Distribution Reservoirs & Standpipe	8,170,420					(1,658,271)	6,512,148
18	331	Transmission and Distribution Mains	17,450,634					1,502,420	18,953,054
19	333	Services	7,389,930					106,408	7,496,338
20	334	Meters	2,722,117	3,556				11,193	2,736,866
21	335	Hydrants	1,171,633					53,353	1,224,985
22	336	Backflow Prevention Devices	-						-
23	339	Other Plant and Misc Equipment	1,610,687			43,217		106,542	1,760,446
24	340	Office Furniture and Fixtures	270,359					1,814	272,173
25	341	Transportation Equipment	535,315						535,315
26	342	Stores Equipment	-						-
27	343	Tools and Work Equipment	149,365						149,365
28	344	Laboratory Equipment	-						-
29	345	Power Operated Equipment	-						-
30	346	Communications Equipment	39,105						39,105
31	347	Miscellaneous Equipment	106,542					(106,542)	0
32	348	Other Tangible Plant	34,062					(34,062)	-
33		Rounding	(3)						(3)
34		TOTALS	$ 51,020,714	$ 32,536	$ 1,280,000	$ 80,891	$ (2,118,336)	$ (0)	$ 50,295,805
35									
36	Plant-in-Service per Direct Filing								$ 51,020,714
37									
38	Increase (decrease) in Plaint-in-Service								$ (724,909)
39									
40	Adjustment to Plant-in-Service								$ (724,909)
41									
42									

43 [1] Colu,mn A - See Staff Schedule MEM-6 and Direct Testimony of Marvin E. Millsap at 6 and 18.
44 [2] Column B- Reclass CAP allocation from deferred regulatory assets. See also B-2, page 5
[3] Column C - See B-2, page 3.1
[4] Column D - See B-2, page 3.2
[5] Column D - See B-2, page 3.3

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column C - Capitalized Expenses

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.	Description	Ref.	Expense Account	Original Cost	Plant Account	
4	New irrigation installation	Staff MEM-10	Outside Services	$ 2,500	304	Struct. & Improv.
5	Installation 30' x 6' fencing w/pa	Staff MEM-10	Outside Services	4,375	304	Struct. & Improv.
6	Professional Survey for new fen	Staff MEM-10	Outside Services	4,715	304	Struct. & Improv.
7	Subtotal			$ 11,590		
8						
9	Recondition motor		Outside Services	$ 7,448	311	Elec. Pumping Equip
10	Removal & repeair of pump		Outside Services	5,513	311	Elec. Pumping Equip
11	Removal & repair of motor and pump		Outside Services	13,123	311	Elec. Pumping Equip
12	Subtotal			$ 26,084		
13						
14	Repairs and maintenance	RUCO TJC-9	Repairs and maintenance	$ 43,217	339	Other Plant & Misc Equip.
15						
16	Total			$ 80,891		
17						
18						
19	Reptirs `					

SUPPORTING SCHEDULES

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column D - Plant Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	Description		Acquistion Date	Direct Filing Original Cost	Plant Account per Direct	Rebuttal Adjustment Original Cost
1						
2						
3						
4	Wells 1971 (Well #8)		1/31/1971	$ 49,329	307	$ (49,329)
5	Wells 1972 (Well #9)		1/31/1972	54,139	307	(54,139)
6	ENGINE WELL		12/31/1986	3,348	307	(3,348)
7	Subtotal			$ 106,816		$ (106,816)
8						
9	Install exhaust fans	Well #9	8/31/1999	$ 596	304	$ (596)
10						
11	Plant 1986	WTP #1	12/31/1986	1,320,562	320	(1,320,562)
12	Water treatment equip 1987	WTP #1	12/31/1987	288,612	320	(288,612)
13	Water treatment equip 1989	WTP #1	1/31/1989	397,339	320	(397,339)
14	Water treatment equipment 89	WTP #1	12/31/1989	4,409	320	(4,409)
15	Subtotal			$ 2,010,923		$ (2,010,923)
16						
17	Total			$ 2,118,336		$ (2,118,336)
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
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29						
30						
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44						
45	SUPPORTING SCHEDULES					
46	Staff Schedule MEM-8, page 3 of 3					
47						
48						
49						
50						

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column E - Summary of Plant Reclassification

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	(FROM) Plant Account Per Direct	Description	1 Direct Original Cost	2 Rebuttal Original Cost Adjustment	(TO) Plant Account Per Rebuttal	Description	3 Direct Original Cost	4 Rebuttal Original Cost Adjustment	5 = 2 + 4 Net Rebuttal Original Cost Adjustment
1	307	Wells & Springs	$ 65,622	$ (65,622)	307	Wells & Springs	$ -	$ -	$ (65,622)
2	305	Collection and Imp Res	$ 6,548	(6,548)	305	Collection and Imp Res	-	-	(6,548)
3	311	Elec. Pumping Equipment	10,368	(10,368)	311	Elec. Pumping Equipment	65,622	65,622	55,253
4	320	Water Treatment Equipment	-	-	320	Water Treatment Equipment	34,062	34,062	34,062
5	330	Distrib Reservoirs	1,664,819	(1,664,819)	330	Distrib Reservoirs	6,548	6,548	(1,658,271)
6	331	Trans and Dist mains	-	-	331	Trans and Dist mains	1,502,420	1,502,420	1,502,420
7	333	Services	44,798	(44,798)	333	Services	151,207	151,207	106,408
8	334	Meters	12,481	(12,481)	334	Meters	23,674	23,674	11,193
9	335	Hydrants	-	-	335	Hydrants	53,353	53,353	53,353
10	339	Other Misc Plant and Equip	-	-	339	Other Misc Plant and Equip	106,542	106,542	106,542
11	340	Office Furn & Equip	-	-	340	Office Furn & Equip	1,814	1,814	1,814
12	347	Miscellaneous	106,542	(106,542)	347	Miscellaneous	-	-	(106,542)
13	348	Other tangible Plant	34,062	(34,062)	348	Other tangible Plant	-	-	(34,062)
14									-
15			$ 1,945,240	$ (1,945,240)			$ 1,945,240	$ 1,945,240	$ -

SUPPORTING SCHEDULES
Rebuttal B-2, page 3.3.1

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column E - Reclassification of Plant

Exhibit
Rebuttal Schedule B-2
Page 3.3.1
Witness: Bourassa

Line No.	Description		Acquistion Date	Original Cost	(FROM) Plant Account per Direct	(TO) Plant Account per Rebuttal
1						
2						
3						
4	Wells#11 Labor/reinstall	250 HP sumb	9/30/1996	$ 65,622	307	311
5						
6	Water treatment study		2004	$ 34,062	348	320
7						
8	16" Trans Main		9/30/2005	$ 1,381,264	330	331
9	Design Eng / Fountain Hills	Blvd Transmission M	8/14/2006	121,156	330	331
10	Subtotal			$ 1,502,420		
11						
12	Install wtr svc @ 15038 escab.		10/31/1996	$ 1,203	330	333
13	Install wtr svc @ 16637 almont		10/31/1996	1,309	330	333
14	Install wtr svc @ twn ctr	car wash	10/31/1996	1,309	330	333
15	Install wtr svc @ 16353 e.arow		10/31/1996	1,113	330	333
16	Install wtr svc @ 13804 sguaro		10/31/1996	1,264	330	333
17	Install wtr svc @ 13804 sguaro		10/31/1996	1,301	330	333
18	Install wtr svc @16850 Nicklus		10/31/1996	1,353	330	333
19	Install wtr svc @15361 G/eagle		10/31/1996	1,203	330	333
20	rplace wtr svc @14213 anguilar		10/31/1996	1,513	330	333
21	rplace wtr svc @14226 anguilar		10/31/1996	1,407	330	333
22	Install wtr svc @Jiffy lub ctr		10/31/1996	1,407	330	333
23	Install wtr svc @16418 desert		11/30/1996	1,097	330	333
24	rplace wtr svc @13221 wendover		11/30/1996	1,203	330	333
25	rplace wtr svc @11015 inca		11/30/1996	1,293	330	333
26	rplace wtr svc @11449 inca		11/30/1996	1,203	330	333
27	rplace wtr svc @LA Fuenta apts		11/30/1996	1,896	330	333
28	rplace wtr svc @12271 Chama		11/30/1996	1,203	330	333
29	rplace wtr svc @16439 Nicklaus		11/30/1996	1,353	330	333
30	rplace wtr svc @17426 Calico		11/30/1996	1,097	330	333
31	rplace wtr svc @11214 Prtridge		11/30/1996	1,118	330	333
32	rplace wtr svc @14218 Saguaro		11/30/1996	1,248	330	333
33	rplace wtr svc @16932 Parlin		11/30/1996	1,052	330	333
34	rplace wtr svc @ Plat 202		11/30/1996	17,773	330	333
35	rplace wtr svc @16629 Almont		11/30/1996	1,422	330	333
36	rplace wtr svc @ Almont dr (2)		11/30/1996	1,354	330	333
37	rplace wtr svc @ El Pueblo (2)		11/30/1996	1,354	330	333
38	rplace wtr svc@17303 el pueblo		11/30/1996	1,203	330	333
39	rplace wtr svc@17252 el pueblo		11/30/1996	946	330	333
40	water service@ 12031 Lamont		11/30/1996	1,203	330	333
41	rpl wtr svc@ 16069 Glenbrook		11/30/1996	1,602	330	333
42	rpl wtr svc@17005 Enterprise		11/30/1996	1,203	330	333
43	Lab.Mat to install copper serv	line	12/31/1996	39,965	330	333
44	Lab.Mat to install copper serv	lines & upgrades	12/31/1996	42,556	330	333
45	Subtotal			$ 138,726		
46						
47	Service Line 1994	Install Wtr Svc, Gler	10/26/1994	$ 12,481	334	333
48						
49	Meter installation		1/31/1973	$ 23,674	330	334
50						
51	Fire Hydrant & DIP		3/31/2005	$ 10,368	311	335
52						
53	1996 Mat/Lab instl new hydrant		12/31/1996	$ 42,984	333	335
54						
55	Chairs (5) & Conference Room	Table	12/31/1993	$ 1,814	333	340
56						
57	Collection & Impounding Reservoirs		2003	$ 6,548	305	330
58						
59	Reclass Adjustment to match Staff PIS			$ 106,542	347	339
60						
61	SUPPORTING SCHEDULES					
62	Staff Schedule MEM-8, page 3 of 3					

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Account No.	Description	Direct Original Cost Accum. Depr.	A Capitalize Expenses[1]	B Retire Wells 8 & 9 & Wtr Treatment Staff Adj. #7[2]	C Reclass & Wtr Treatment[3]	Rebuttal Original Cost Accum. Depr.
6	301	Organization Cost	-				-
7	302	Franchise Cost	-				-
8	303	Land and Land Rights	-				-
9	304	Structures and Improvements	357,961	193	(596)		357,558
10	305	Collecting and Impounding Res.	573			(573)	0
11	306	Lake River and Other Intakes	-				-
12	307	Wells and Springs	183,252		(106,816)	(17,906)	58,529
13	308	Infiltration Galleries and Tunnels	-				-
14	309	Supply Mains	-				-
15	310	Power Generation Equipment	-				-
16	311	Electric Pumping Equipment	879,456	1,630		23,873	904,959
17	320	Water Treatment Equipment	2,304,464		(2,010,923)	2,482	296,023
18	330	Distribution Reservoirs & Standpipe	1,996,014			(108,395)	1,887,619
19	331	Transmission and Distribution Mains	7,154,728			45,239	7,199,968
20	333	Services	1,060,764			29,524	1,090,288
21	334	Meters	990,763			18,864	1,009,627
22	335	Hydrants	235,514			12,084	247,598
23	336	Backflow Prevention Devices	-				-
24	339	Other Plant and Miscellaneous Equipment	135,962	1,441		28,874	166,278
25	340	Office Furniture and Fixtures	45,958			707	46,665
26	341	Transportation Equipment	60,636				60,636
27	342	Stores Equipment	-				-
28	343	Tools and Work Equipment	34,980				34,980
29	344	Laboratory Equipment	25				25
30	345	Power Operated Equipment	-				-
31	346	Communications Equipment	883				883
32	347	Miscellaneous Equipment	31,899			(31,899)	0
33	348	Other Tangible Plant	-				-
34		TOTALS	$ 15,473,834	$ 3,265	$ (2,118,336)	$ 2,875	$ 13,361,637

37	Accumulated Depreciation per Direct Filing	$ 15,473,834
39	Increase (Decrease) to Accumulated Depreciation	$ (2,112,197)
41	Adjustment to Accumulated Depreciation	$ (2,112,197)

[1] Column A - See B-2, page 4.1
[3] Column B - See B-2, page 4.2
[3] Column C - See B-2, page 4.3

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column A - Capitalized Expenses Accum. Depr.

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.	Description	Plant Account	Original Cost	Depr. Rate	Depreciation Half-year Convention
4	New irrigation installation	304	$ 2,500	3.33%	$ 42
5	Installation 30' x 6' fencing w/pane	304	4,375	3.33%	73
6	Professional Survey for new fence	304	4,715	3.33%	79
7	Subtotal		$ 11,590		$ 193
9	Recondition motor	311	$ 7,448	12.50%	$ 466
10	Removal & repeair of pump	311	5,513	12.50%	345
11	Removal & repair of motor and pump	311	13,123	12.50%	820
12	Subtotal		$ 26,084		$ 1,630
14	Repairs and Maitenance	339	$ 43,217	6.67%	$ 1,441
16	Total		$ 80,891		$ 3,265

SUPPORTING SCHEDULES
Rebuttal B-2, page 3.1
Staff Schedule MEM-8, page 3 of 3

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column B - Retirements Adjustment to Accum. Depr.

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line No.	Description		Plant Account	Retirement Original Cost	Rebuttal Depreciation Adjustment
1					
2					
3					
4	Wells 1971 (Well #8)		307	$ 49,329	$ (49,329)
5	Wells 1972 (Well #9)		307	54,139	(54,139)
6	ENGINE WELL		307	3,348	(3,348)
7	Subtotal			$ 106,816	$ (106,816)
8					
9	Install exhaust fans	Well #9	307	$ 596	$ (596)
10					
11	Plant 1986	WTP #1	320	$ 1,320,562	$ (1,320,562)
12	Water treatment equip 1987	WTP #1	320	288,612	(288,612)
13	Water treatment equip 1989	WTP #1	320	397,339	(397,339)
14	Water treatment equipment 89	WTP #1	320	4,409	(4,409)
15	Subtotal			$ 2,010,923	$ (2,010,923)
16					
17	Total			$ 2,118,336	$ (2,118,336)
18					
19					
20					
21					
22					
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45	SUPPORTING SCHEDULES				
46	Rebuttal B-2, page 3.2				
47	Staff Schedule MEM-8, page 3 of 3				
48					
49					
50					

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column E - Summary of Plant Reclassification

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Line No.	(FROM) Plant Account Per Direct	Description	1 Direct Accum. Depr.	2 Rebuttal Accum. Depr. Adjustment	(TO) Plant Account Per Rebuttal	Description	3 Direct Accum. Depr.	4 Rebuttal Accum. Depr. Adjustment	5 = 2 + 4 Net Accum. Depr. Adjustment
6	307	Wells & Springs	$ 17,906	$ (17,906)	307	Wells & Springs	$ -	$ -	$ (17,906)
7	305	Collection and Imp Res	$ 573	(573)	305	Collection and Imp Res	-	-	(573)
8	311	Elec. Pumping Equipment	1,555	(1,555)	311	Elec. Pumping Equipment	25,428	25,428	23,873
9	320	Water Treatment Equipment	-	-	320	Water Treatment Equipment	2,482	2,482	2,482
10	330	Distrib Reservoirs	108,395	(108,395)	330	Distrib Reservoirs	-	-	(108,395)
11	331	Trans and Dist mains	-	-	331	Trans and Dist mains	45,239	45,239	45,239
12	333	Services	12,360	(12,360)	333	Services	41,885	41,885	29,524
13	334	Meters	4,810	(4,810)	334	Meters	23,674	23,674	18,864
14	335	Hydrants	-	-	335	Hydrants	12,084	12,084	12,084
15	339	Other Misc Plant and Equip	-	-	339	Other Misc Plant and Equip	28,874	28,874	28,874
16	340	Office Furn & Equip	-	-	340	Office Furn & Equip	707	707	707
17	347	Miscellaneous	31,899	(31,899)	347	Miscellaneous	-	-	(31,899)
18	348	Other tangible Plant	-	-	348	Other tangible Plant	-	-	-
19									-
20			$ 177,498	$ (177,498)			$ 180,373	$ 180,373	$ 2,875
21									
22									
23									
24									

25 SUPPORTING SCHEDULES
26 Rebuttal B-2, page 3.3.1
27
28
29
30

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column C - Compute Depreciation for Reclassified Amounts and New Plant Acct.

Exhibit
Rebuttal Schedule B-2
Page 4.3.1
Witness: Bourassa

Line No.	Description	(TO) Rebuttal Plant Account	Original Cost	Acquistion Year	1991 to 9-2005 Depreciation Rate	10-2005 to 2006 Depreciation Rate	Rebuttal Accum. Depr.[1]
5	Wells#11 Labor/reinstall 250 hp sub.	311	$ 65,622	1996	2.50%	12.50%	$ 25,428
7	Water treatment study	320	$ 34,062	2004	2.50%	3.33%	$ 2,482
9	16" Trans Main	331	$ 1,381,264	2005	2.50%	2.00%	$ 44,028
10	Design Eng / Fountain Hills	331	121,156	2006	2.50%	2.00%	$ 1,212
11	Subtotal		$ 1,502,420				$ 45,239
13	Install wtr svc @ 15038 escab.	333	$ 1,203	1996	2.50%	3.33%	$ 328
14	Install wtr svc @ 16637 almont	333	1,309	1996	2.50%	3.33%	357
15	Install wtr svc @ twn ctr	333	1,309	1996	2.50%	3.33%	357
16	Install wtr svc @ 16353 e.arow	333	1,113	1996	2.50%	3.33%	304
17	Install wtr svc @ 13804 sguaro	333	1,264	1996	2.50%	3.33%	345
18	Install wtr svc @ 13804 sguaro	333	1,301	1996	2.50%	3.33%	355
19	Install wtr svc @16850 Nicklus	333	1,353	1996	2.50%	3.33%	369
20	Install wtr svc @15361 G/eagle	333	1,203	1996	2.50%	3.33%	328
21	rplace wtr svc @14213 anguilar	333	1,513	1996	2.50%	3.33%	413
22	rplace wtr svc @14226 anguilar	333	1,407	1996	2.50%	3.33%	384
23	Install wtr svc @Jiffy lub ctr	333	1,407	1996	2.50%	3.33%	384
24	Install wtr svc @16418 desert	333	1,097	1996	2.50%	3.33%	299
25	rplace wtr svc @13221 wendover	333	1,203	1996	2.50%	3.33%	328
26	rplace wtr svc @11015 inca	333	1,293	1996	2.50%	3.33%	353
27	rplace wtr svc @11449 inca	333	1,203	1996	2.50%	3.33%	328
28	rplace wtr svc @LA Fuenta apts	333	1,896	1996	2.50%	3.33%	517
29	rplace wtr svc @12271 Chama	333	1,203	1996	2.50%	3.33%	328
30	rplace wtr svc @16439 Nicklaus	333	1,353	1996	2.50%	3.33%	369
31	rplace wtr svc @17426 Calico	333	1,097	1996	2.50%	3.33%	299
32	rplace wtr svc @11214 Prtridge	333	1,118	1996	2.50%	3.33%	305
33	rplace wtr svc @14218 Saguaro	333	1,248	1996	2.50%	3.33%	341
34	rplace wtr svc @16932 Parlin	333	1,052	1996	2.50%	3.33%	287
35	rplace wtr svc @ Plat 202	333	17,773	1996	2.50%	3.33%	4,850
36	rplace wtr svc @16629 Almont	333	1,422	1996	2.50%	3.33%	388
37	rplace wtr svc @ Almont dr (2)	333	1,354	1996	2.50%	3.33%	369
38	rplace wtr svc @ El Pueblo (2)	333	1,354	1996	2.50%	3.33%	369
39	rplace wtr svc@17303 el pueblo	333	1,203	1996	2.50%	3.33%	328
40	rplace wtr svc@17252 el pueblo	333	946	1996	2.50%	3.33%	258
41	water service@ 12031 Lamont	333	1,203	1996	2.50%	3.33%	328
42	rpl wtr svc@ 16069 Glenbrook	333	1,602	1996	2.50%	3.33%	437
43	rpl wtr svc@17005 Enterprise	333	1,203	1996	2.50%	3.33%	328
44	Lab.Mat to install copper serv	333	39,965	1996	2.50%	3.33%	10,905
45	Lab.Mat to install copper serv	333	42,556	1996	2.50%	3.33%	11,613
46	Subtotal		$ 138,726				$ 37,855
48	Service Line 1994	333	$ 12,481	1994	2.50%	3.33%	$ 4,030
50	Meter installation	334	$ 23,674	1973	FULLY DEPRECIATED		$ 23,674
52	Fire Hydrant & DIP	335	$ 10,368	2005	2.50%	8.33%	$ 1,069
54	1996 Mat/Lab instl new hydrant	335	$ 42,984	1996	2.50%	2.00%	$ 11,015
56	Chairs (5) & Conference Room	340	$ 1,814	1993	2.50%	6.67%	$ 707
58	Collection & Impounding Reservoirs	330	$ 6,548	2003	2.50%	2.22%	$ 550
60	Reclass Adjustment to match Staff PIS						
61	Balance at 12/31/2003	339	$ 67,303	2003	2.50%	6.67%	$ 9,397
62	A/D balance at 12/31/2003						16,832
63	2004 Additions	339	$ 16,445	2004	2.50%	6.67%	1,885
64	2005 Additions	339	$ -	2005	2.50%	6.67%	-
65	2006 Additions	339	$ 22,794	2006	2.50%	6.67%	760
66			$ 106,542				28,874

68 SUPPORTING SCHEDULES
69 Rebuttal B-2, page 3.3

71 [1] Half-year convention

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column C - Compute Depreciation for Reclassified Amounts and Old Plant Acct.

Exhibit
Rebuttal Schedule B-2
Page 4.3.2
Witness: Bourassa

Line No.	Description	(FROM) Direct Plant Account	Original Cost	Acquistion Year	1991 to 9/2005 Depreciation Rate	10-2005 to 2006 Depreciation Rate	Direct Accum. Depr.[1]
1	Wells#11 Labor/reinstall 250 hp sub.	307	$ 65,622	1996	2.50%	3.33%	$ 17,906
2							
3	Water treatment study	348	$ 34,062	2004	0.00%	0.00%	$ -
4							
5	16" Trans Main	330	$ 1,381,264	2005	2.50%	2.22%	$ 47,446
6	Design Eng / Fountain Hills	330	121,156	2006	2.50%	2.22%	$ 1,345
7	Subtotal		$ 1,502,420				$ 48,791
8							
9	Install wtr svc @ 15038 escab.	330	$ 1,203	1996	2.50%	2.22%	$ 312
10	Install wtr svc @ 16637 almont	330	1,309	1996	2.50%	2.22%	339
11	Install wtr svc @ twn ctr	330	1,309	1996	2.50%	2.22%	339
12	Install wtr svc @ 16353 e.arow	330	1,113	1996	2.50%	2.22%	288
13	Install wtr svc @ 13804 sguaro	330	1,264	1996	2.50%	2.22%	327
14	Install wtr svc @ 13804 sguaro	330	1,301	1996	2.50%	2.22%	337
15	Install wtr svc @16850 Nicklus	330	1,353	1996	2.50%	2.22%	350
16	Install wtr svc @15361 G/eagle	330	1,203	1996	2.50%	2.22%	312
17	rplace wtr svc @14213 anguilar	330	1,513	1996	2.50%	2.22%	392
18	rplace wtr svc @14226 anguilar	330	1,407	1996	2.50%	2.22%	364
19	Install wtr svc @Jiffy lub ctr	330	1,407	1996	2.50%	2.22%	364
20	Install wtr svc @16418 desert	330	1,097	1996	2.50%	2.22%	284
21	rplace wtr svc @13221 wendover	330	1,203	1996	2.50%	2.22%	312
22	rplace wtr svc @11015 inca	330	1,293	1996	2.50%	2.22%	335
23	rplace wtr svc @11449 inca	330	1,203	1996	2.50%	2.22%	312
24	rplace wtr svc @LA Fuenta apts	330	1,896	1996	2.50%	2.22%	491
25	rplace wtr svc @12271 Chama	330	1,203	1996	2.50%	2.22%	312
26	rplace wtr svc @16439 Nicklaus	330	1,353	1996	2.50%	2.22%	350
27	rplace wtr svc @17426 Calico	330	1,097	1996	2.50%	2.22%	284
28	rplace wtr svc @11214 Prtridge	330	1,118	1996	2.50%	2.22%	290
29	rplace wtr svc @14218 Saguaro	330	1,248	1996	2.50%	2.22%	323
30	rplace wtr svc @16932 Parlin	330	1,052	1996	2.50%	2.22%	272
31	rplace wtr svc @ Plat 202	330	17,773	1996	2.50%	2.22%	4,603
32	rplace wtr svc @16629 Almont	330	1,422	1996	2.50%	2.22%	368
33	rplace wtr svc @ Almont dr (2)	330	1,354	1996	2.50%	2.22%	351
34	rplace wtr svc @ El Pueblo (2)	330	1,354	1996	2.50%	2.22%	351
35	rplace wtr svc@17303 el pueblo	330	1,203	1996	2.50%	2.22%	312
36	rplace wtr svc@17252 el pueblo	330	946	1996	2.50%	2.22%	245
37	water service@ 12031 Lamont	330	1,203	1996	2.50%	2.22%	312
38	rpl wtr svc@ 16069 Glenbrook	330	1,602	1996	2.50%	2.22%	415
39	rpl wtr svc@17005 Enterprise	330	1,203	1996	2.50%	2.22%	312
40	Lab.Mat to install copper serv	330	39,965	1996	2.50%	2.22%	10,351
41	Lab.Mat to install copper serv	330	42,556	1996	2.50%	2.22%	11,022
42	Subtotal		$ 138,726				$ 35,930
43							
44	Service Line 1994	334	$ 12,481	1994	2.50%	8.33%	$ 4,810
45							
46	Meter installation	330	$ 23,674	1973	FULLY DEPRECIATED		$ 23,674
47							
48	Fire Hydrant & DIP	311	$ 10,368	2005	2.50%	12.50%	$ 1,555
49							
50	1996 Mat/Lab instl new hydrant	333	$ 42,984	1996	2.50%	3.33%	$ 11,729
51							
52	Chairs (5) & Conference Room	333	$ 1,814	1993	2.50%	3.33%	$ 631
53							
54	Collection & Impounding Reservoirs	305	$ 6,548	2003	2.50%	2.50%	$ 573
55							
56	Reclass Adjustment to match Staff PIS						
57	Balance at 12/31/2003	347	$ 67,303	2003	2.50%	10.00%	$ 11,357
58	A/D balance at 12/31/2003						16,832
59	2004 Additions	347	$ 16,445	2004	2.50%	10.00%	2,570
60	2005 Additions	347	$ -	2005	2.50%	10.00%	-
61	2006 Additions	347	$ 22,794	2006	2.50%	10.00%	1,140
62			$ 106,542				$ 31,899
63							
64	SUPPORTING SCHEDULES						
65	Rebuttal B-2, page 3.3						
66							
67	[1] Half-year convention						

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Line No.				A	B					
1	General Office Plant Allocation - Plant-in-service				Intentionally			Rebuttal	Direct	
2			Direct	Remove	Left	Rebuttal	Allocation	Allocated	Allocated	Rebuttal
3	NARUC	NARUC Description	Orig. Cost	GO Plant	Blank	Orig. Cost	Factor	Orig. Cost	Orig. Cost	Adjustment
4	301	Organization Cost	16,452			16,452	2.80%	461	528	(67)
5	302	Franchise Cost and Other Intangible Plant	1,089,237	(420,000)		669,237	2.80%	18,739	34,965	(16,226)
6	303	Land and Land Rights	-			-	2.80%	-	-	-
7	304	Structures and Improvements	5,802,813	(820,254)		4,982,559	2.80%	139,512	186,270	(46,758)
8	305	Collecting and Impounding Res.	-			-	2.80%	-	-	-
9	306	Lake River and Other Intakes	-			-	2.80%	-	-	-
10	307	Wells and Springs	-			-	2.80%	-	-	-
11	308	Infiltration Galleries and Tunnels	-			-	2.80%	-	-	-
12	309	Supply Mains	-			-	2.80%	-	-	-
13	310	Power Generation Equipment	-			-	2.80%	-	-	-
14	311	Electric Pumping Equipment	(916)			(916)	2.80%	(26)	(29)	3
15	320	Water Treatment Equipment	-			-	2.80%	-	-	-
16	330	Distribution Reservoirs & Standpipe	-			-	2.80%	-	-	-
17	331	Transmission and Distribution Mains	-			-	2.80%	-	-	-
18	333	Services	-			-	2.80%	-	-	-
19	334	Meters	-			-	2.80%	-	-	-
20	335	Hydrants	-			-	2.80%	-	-	-
21	336	Backflow Prevention Devices	-			-	2.80%	-	-	-
22	339	Other Plant and Miscellaneous Equipment	847,382			847,382	2.80%	23,727	27,201	(3,474)
23	340	Office Furniture and Fixtures	14,268,765			14,268,765	2.80%	399,525	458,027	(58,502)
24	341	Transportation Equipment	552,719	(274,001)		278,718	2.80%	7,804	17,742	(9,938)
25	342	Stores Equipment	-			-	2.80%	-	-	-
26	343	Tools and Work Equipment	405,643			405,643	2.80%	11,358	13,021	(1,663)
27	344	Laboratory Equipment	4,061			4,061	2.80%	114	130	(16)
28	345	Power Operated Equipment	249,261			249,261	2.80%	6,979	8,001	(1,022)
29	346	Communications Equipment	165,561			165,561	2.80%	4,636	5,315	(679)
30	347	Miscellaneous Equipment	-			-	2.80%	-	-	-
31	348	Other Tangible Plant	-			-	2.80%	-	-	-
32										
33			$23,400,978	$ (1,514,255)	$ -	$21,886,723		$ 612,828	$ 751,171	$ (138,343)
34										
35	General Office Plant Allocation - Plant-in-service per Direct Filing							$ 751,171		
36										
37	Increase (Decrease) to Plant -in-service							$ (138,343)		
38										
39	Adjustment to Plant-in-Service							$ (138,343)		
40										
41										
42	SUPPORTING SCHEDULES									
43	Staff Schedule MEM-7									
44										

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line No.										
1	General Office Plant Allocation -Accumulated Depreciation			A	B					
2			Direct		Intentionally	Rebuttal		Rebuttal Allocated	Direct	
3			Accum.	Remove	Left	Accum.	Allocation	Accum.	Allocated	Rebuttal
4	NARUC	NARUC Description	Depr.	GO Plant	Blank	Depr.	Factor	Depr.	Accum. Depr.	Adjustment
5	301	Organization Cost	3,046	(3,046)		-	2.80%	-	98	(98)
6	302	Franchise Cost and Other Intangible Plant	211,596	(153,888)		57,708	2.80%	1,616	6,792	(5,176)
7	303	Land and Land Rights	-			-	2.80%	-		-
8	304	Structures and Improvements	2,354,430			2,354,430	2.80%	65,924	75,577	(9,653)
9	305	Collecting and Impounding Res.	-			-	2.80%	-	-	-
10	306	Lake River and Other Intakes	-			-	2.80%	-	-	-
11	307	Wells and Springs	-			-	2.80%	-	-	-
12	308	Infiltration Galleries and Tunnels	-			-	2.80%	-	-	-
13	309	Supply Mains	-			-	2.80%	-	-	-
14	310	Power Generation Equipment	-			-	2.80%	-	-	-
15	311	Electric Pumping Equipment	-			-	2.80%	-	-	-
16	320	Water Treatment Equipment	-			-	2.80%	-	-	-
17	330	Distribution Reservoirs & Standpipe	-			-	2.80%	-	-	-
18	331	Transmission and Distribution Mains	-			-	2.80%	-	-	-
19	333	Services	-			-	2.80%	-	-	-
20	334	Meters	-			-	2.80%	-	-	-
21	335	Hydrants	-			-	2.80%	-	-	-
22	336	Backflow Prevention Devices	-			-	2.80%	-	-	-
23	339	Other Plant and Miscellaneous Equipment	162,569	(166,019)		(3,450)	2.80%	(97)	5,218	(5,315)
24	340	Office Furniture and Fixtures	8,664,647			8,664,647	2.80%	242,610	278,135	(35,525)
25	341	Transportation Equipment	552,718	(274,001)		278,717	2.80%	7,804	17,742	(9,938)
26	342	Stores Equipment	-			-	2.80%	-	-	-
27	343	Tools and Work Equipment	192,488			192,488	2.80%	5,390	6,179	(789)
28	344	Laboratory Equipment	4,062			4,062	2.80%	114	130	(16)
29	345	Power Operated Equipment	249,257			249,257	2.80%	6,979	8,001	(1,022)
30	346	Communications Equipment	165,561			165,561	2.80%	4,636	5,315	(679)
31	347	Miscellaneous Equipment	-			-	2.80%	-		-
32	348	Other Tangible Plant	-			-	2.80%	-		-
33			$12,560,374	$ (596,954)	$ -	$ 11,963,420		$ 334,976	$ 403,187	$ (68,211)
34										
35	General Office Plant Allocation - Plant-in-service per Direct Filing							$ 403,187		
36										
37	Increase (Decrease) to Plant -in-service							$ (68,211)		
38										
39	Adjustment to Plant-in-Service							$ (68,211)		
40										
41										
42										
43										
44										

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

Line No.		
1	Remove CAP Allocation from Deferred Regulatory Assets	
2		
3		
4	CAP Allocation Cost Per Direct Filing	$ 1,280,000
5		
6		
6		
7		
8		
9		
10		
11		
12		
13		
14	Increase (Decrease) to Deferred Regulatory Assets	$ (1,280,000)
15		
16		
17		
18	Note: CAP Allocation is reclassed to Land and Land Rights. See B-2, page 3	
19	Based on Staff proposed adjustment. See Staff Schedule MEM-4 and MEM-6.	
20	See Direct Testimony of Marvin E. Missalp at 15-18.	

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 6

Exhibit
Rebuttal Schedule B-2
Page 8
Witness: Bourassa

Line No.			
1	Cash Working Capital		
2			
3			
4	Adjustment to Cash Working Capital based on RUCO Lead/Lag Study	$	(111,606)
5			
6			
6			
7			
8			
9			
10			
11			
12			
13			
14	Increase (Decrease) to Cash Working Capital	$	(111,606)
15			
16			
17	Based on Lead/lag Study preopared bu RUCO. See Direct testimony of Timothy J. Coley.		
18	See also RUCO Schedule TJC-20, pages 1 to 15.		
19			
20			

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-3
Page 1
Witness: Bourassa

Line No.		Direct Adjusted at End of Test Year	Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 80,783,568	(2,647,204)	$ 78,136,365
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	25,894,686	(2,162,620)	23,732,066
7				
8	Net Utility Plant			
9	in Service	$ 54,888,882	-	$ 54,404,299
10				
11	**Less:**			
12	Advances in Aid of			
13	Construction	10,225,334	-	10,225,334
14				
15	Contributions in Aid of			
16	Construction - Net	9,435,452	-	9,435,452
17				
18	Customer Meter Deposits	819,845	-	819,845
19	Deferred Income Taxes	925,896	-	925,896
20	Investment Tax Credits	-	-	-
21	Well Settlement Proceeds	646,000	-	646,000
22				
23	**Plus:**			
24	Unamortized Debt Issuance			
25	Costs	424,010	-	424,010
26	Prepayments	192,485	(192,485)	-
27	Materials and Supplies	14,521	(14,521)	-
28	Deferred Regulatory Assets	1,280,000	(1,280,000)	-
29	Working capital	-	95,400	95,400
30				
31				
32	Total	$ 34,747,372		$ 32,871,183
33				
34				
35				
36	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
37	Rebuttal B-3, page 2			Rebuttal B-1
38				
39				
40				

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-3
Page 2
Witness: Bourassa

Line No.		Direct Adjusted at end of Test Year	1 Plant-in-Service Adjustment	2 Accumulated Depreciation Adjustment	3 GO Plant Adjustment	4 GO Plant Accum Depr Adjustment	5 Reclass CAP Allocation	6 Cash Working Capital	Rebuttal Adjusted at end of Test Year
1	Gross Utility								
2	Plant in Service	$ 80,783,568	$ (2,472,003)		$ (175,200)				$ 78,136,365
3									
4	**Less:**								
5									
6	Accumulated								
7	Depreciation	25,894,686		(2,094,182)		(68,439)			23,732,066
8									
9	Net Utility Plant								
10	in Service	$ 54,888,882							$ 54,404,299
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	10,225,334							10,225,334
15									
16	Contributions in Aid of								
17	Construction - Net	9,435,452							9,435,452
18									
19	Customer Meter Deposits	819,845							819,845
20	Deferred Income Taxes	925,896							925,896
21	Investment Tax Credits	-							-
22	Well Settlement Proceeds	646,000							646,000
23									
24	**Plus:**								
25	Unamortized Debt Issuance								
26	Costs	424,010							424,010
27	Prepayments	192,485						(192,485)	-
28	Materials and Supplies	14,521						(14,521)	-
29	Deferred Regulatory Assets	1,280,000					(1,280,000)		-
30	Working capital	-						95,400	95,400
31									
32									
33	Total	$ 34,747,372	$ (2,472,003)	$ (2,094,182)	$ (175,200)	$ (68,439)	$ (1,280,000)	$ (111,606)	$ 32,871,183
34									
35									
36									
37	SUPPORTING SCHEDULES:								
38	Rebuttal B-3, pages 3-6								
39									

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-3
Page 3
Witness: Bourassa

Line No.	Account No.	Description	Direct RCN Cost	A CAP Allocation[1]	B RCN Value Correction[2]	C Capitalize Expenses[3]	D Retire Wells 8 & 9 & Wtr Treatment[4]	E Plant Reclassification[5]	Rebuttal RCN Cost
1	Plant-in-Service								
2									
3	Account		Direct	CAP	RCN Value	Capitalize	Retire Wells 8 & 9	Plant	Rebuttal
4	No.	Description	RCN Cost	Allocation[1]	Correction[2]	Expenses[3]	& Wtr Treatment[4]	Reclassification[5]	RCN Cost
5	301	Organization Cost	-						-
6	302	Franchise Cost	-						-
7	303	Land and Land Rights	271,857	1,280,000					1,551,857
8	304	Structures and Improvements	1,965,394		(17,805)	11,590	(798)		1,958,380
9	305	Collecting and Impounding Res.	9,163					(9,163)	0
10	306	Lake River and Other Intakes	-						-
11	307	Wells and Springs	908,287				(440,672)	(87,572)	380,043
12	308	Infiltration Galleries and Tunnels	-						-
13	309	Supply Mains	-						-
14	310	Power Generation Equipment	-						-
15	311	Electric Pumping Equipment	3,160,902			26,084		79,641	3,266,627
16	320	Water Treatment Equipment	9,969,130				(3,262,891)	36,355	6,742,593
17	330	Distribution Reservoirs & Standpipe	12,993,526					(1,940,538)	11,052,988
18	331	Transmission and Distribution Mains	31,920,448					1,601,081	33,521,530
19	333	Services	9,304,078					146,915	9,450,993
20	334	Meters	3,981,833					16,309	3,998,143
21	335	Hydrants	2,192,853					77,763	2,270,616
22	336	Backflow Prevention Devices	-						-
23	339	Other Plant and Miscellaneous Equipment	1,678,949			43,217		135,072	1,857,238
24	340	Office Furniture and Fixtures	349,449					2,543	351,993
25	341	Transportation Equipment	663,541						663,541
26	342	Stores Equipment	-						-
27	343	Tools and Work Equipment	195,755						195,755
28	344	Laboratory Equipment	-						-
29	345	Power Operated Equipment	-						-
30	346	Communications Equipment	57,138						57,138
31	347	Miscellaneous Equipment	135,072					(135,072)	(0)
32	348	Other Tangible Plant	34,062					(34,062)	0
33		TOTALS	$ 79,791,439	$ 1,280,000	$ (17,805)	$ 80,891	$ (3,704,362)	$ (110,727)	$ 77,319,436
34									
35	RCN Plant-in-Service Per Direct Filing								$ 79,791,439
36									
37	Increase (decrease) to Plant-in-Service								$ (2,472,003)
38									
39	Adjustment to Plant-in-Service								$ (2,472,003)
40									

Exhibit
Rebuttal Schedule B-3
Page 3.1
Witness: Bourassa

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column B - Correction of RCN Factors for Account 304

Line No.	Description	Year	Direct Original Cost	Plant Account per Direct	Direct HW Base	Direct Year Index	Direct RCN Factor	Direct RCN Value
5	Structures & Improvements	2004	$ 42,575	304	434	276	1.5725	$ 66,948

Line No.	Description	Year	Rebuttal Original Cost	Plant Account per Direct	Rebuttal HW Base	Rebuttal Year Index	RCN Factor	Rebuttal RCN Value
11	Structures & Improvements	2004	$ 42,575	304	434	376	1.1543	$ 49,143

14	RCN value Per Rebuttal	$ 49,143
15	RCN value Per Direct	66,948
17	Increase (Decrease) in RCN Value	$ (17,805)

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column C - Capitalized Expenses

Exhibit
Rebuttal Schedule B-3
Page 3.2
Witness: Bourassa

Line No.	Description	Rebuttal Original Cost	RCN Factor	Rebuttal Adjustment RCN Value	Plant Account	
4	New irrigation installation	$ 2,500	1.00	$ 2,500	304	Struct. & Improv.
5	Installation 30' x 6' fencing w/pane	4,375	1.00	4,375	304	Struct. & Improv.
6	Professional Survey for new fence	4,715	1.00	4,715	304	Struct. & Improv.
7	Subtotal	$ 11,590		$ 11,590		
9	Recondition motor	$ 7,448	1.00	$ 7,448	311	Elec. Pumping Equip
10	Removal & repeair of pump	5,513	1.00	5,513	311	Elec. Pumping Equip
11	Removal & repair of motor and pump	13,123	1.00	13,123	311	Elec. Pumping Equip
12	Subtotal	$ 26,084		$ 26,084		
14	Repairs and Maintenance	$ 43,217	1.00	$ 43,217	339	Other Plant & Misc. Equip
16	Total	$ 80,891		$ 80,891		

SUPPORTING SCHEDULES
B-2, page 3 and 3.1
Staff Schedule MEM-10

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column D - Plant Retirements

Exhibit
Rebuttal Schedule B-3
Page 3.3
Witness: Bourassa

Line No.	Description		Acquistion Date	Original Cost	Plant Account per Direct	RCN Factor	RCN VALUE	Rebuttal Adjustment RCN VALUE
4	Wells 1971 (Well #8)		1/31/1971	$ 49,329	307	4.3523	$ 214,695	$ (214,695)
5	Wells 1972 (Well #9)		1/31/1972	54,139	307	4.0745	220,589	(220,589)
6	ENGINE WELL		12/31/1986	3,348	307	1.6092	5,388	(5,388)
7	Subtotal			$ 106,816			$ 440,672	$ (440,672)
9	Install exhaust fans	Well #9	8/31/1999	$ 596	304	1.3395	$ 798	$ (798)
11	Plant 1986	WTP #1	12/31/1986	1,320,562	320	1.6506	2,179,720	(2,179,720)
12	Water treatment equip 1987	WTP #1	12/31/1987	288,612	320	1.6145	465,965	(465,965)
13	Water treatment equip 1989	WTP #1	1/31/1989	397,339	320	1.5363	610,432	(610,432)
14	Water treatment equipment 89	WTP #1	12/31/1989	4,409	320	1.5363	6,774	(6,774)
15	Subtotal			$ 2,010,923			$ 3,262,891	$ (3,262,891)
17	Total			$ 2,118,336			$ 3,704,362	$ (3,704,362)

SUPPORTING SCHEDULES
Staff MEM-8, page 3 of 3

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
Details of Column E - Summary of Plant Reclassification

Exhibit
Rebuttal Schedule B-3
Page 3.4
Witness: Bourassa

Line No.			1	2			3	4	5 = 2 + 4
2	(FROM)				(TO)				
3	**Direct Plant**		**Direct RCN**	**Rebuttal RCN Value**	**Rebuttal Plant**		**Rebuttal RCN**	**Rebuttal RCN Value**	**Net Rebuttal RCN Value**
4	**Account**	**Description**	**Value**	**Adjustment**	**Account**	**Description**	**Value**	**Adjustment**	**Adjustment**
6	307	Wells & Springs	$ 87,572	$ (87,572)	307	Wells & Springs	$ -	$ -	$ (87,572)
7	305	Collection and Impounding Res	$ 9,163	(9,163)	305	Collection and Impounding Res	-	-	(9,163)
8	311	Elec. Pumping Equipment	10,625	(10,625)	311	Elec. Pumping Equipment	90,266	90,266	79,641
9	320	Water Treatment Equipment	-	-	320	Water Treatment Equipment	36,355	36,355	36,355
10	330	Distrib Reservoirs	1,949,701	(1,949,701)	330	Distrib Reservoirs	9,163	9,163	(1,940,538)
11	331	Trans and Dist mains	-	-	331	Trans and Dist mains	1,601,081	1,601,081	1,601,081
12	333	Services	61,749	(61,749)	333	Services	208,664	208,664	146,915
13	334	Meters	17,806	(17,806)	334	Meters	34,115	34,115	16,309
14	335	Hydrants	-	-	335	Hydrants	77,763	77,763	77,763
15	339	Other Misc Plant and Equip	-	-	339	Other Misc Plant and Equip	135,072	135,072	135,072
16	340	Office Furn & Equip	-	-	340	Office Furn & Equip	2,543	2,543	2,543
17	347	Miscellaneous	135,072	(135,072)	347	Miscellaneous	-	-	(135,072)
18	348	Other tangible Plant	34,062	(34,062)	348	Other tangible Plant	-	-	(34,062)
19									-
20			$ 2,305,750	$ (2,305,750)			$ 2,195,023	$ 2,195,023	$ (110,727)
21									
22									
23	SUPPORTING SCHEDULES								
24	B-2, page 3.4.1								
25									
26									
27									
28									
29									
30									

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-3
Page 4
Witness: Bourassa

Line No.	Plant-in-Service		1	2	3 = 2/1	4	5 = 4x3		
	Account		Rebuttal Original	Rebuttal RCN		Rebuttal Original Cost	Rebuttal RCN	Direct RCN	Rebuttal RCN
	No.	Description	Cost	Value	Ratio	Accum Depr	Accum. Depr.	Accum. Depr.	Adjustment
5	301	Organization Cost	-	-	-	-	-	-	-
6	302	Franchise Cost	-	-	-	-	-		-
7	303	Land and Land Rights	1,551,858	1,551,857	1.0000	-	-		-
8	304	Structures and Improvements	1,529,642	1,958,380	1.2803	357,558	457,776	486,810	(29,033)
9	305	Collecting and Impounding Res.	-	0	-	0	-		-
10	306	Lake River and Other Intakes	-	-	-	-	-		-
11	307	Wells and Springs	159,627	380,043	2.3808	58,529	139,348	150,254	(10,906)
12	308	Infiltration Galleries and Tunnels	-	-	-	-	-		-
13	309	Supply Mains	-	-	-	-	-		-
14	310	Power Generation Equipment	-	-	-	-	-		-
15	311	Electric Pumping Equipment	1,588,246	3,266,627	2.0568	904,959	1,861,276	1,750,363	110,913
16	320	Water Treatment Equipment	5,786,639	6,742,593	1.1652	296,023	344,926	2,695,725	(2,350,799)
17	330	Distribution Reservoirs & Standpipe	6,512,148	11,052,988	1.6973	1,887,619	3,203,832	2,276,817	927,015
18	331	Transmission and Distribution Mains	18,953,054	33,521,530	1.7687	7,199,968	12,734,303	12,993,907	(259,604)
19	333	Services	7,496,338	9,450,993	1.2607	1,090,288	1,374,578	1,547,309	(172,731)
20	334	Meters	2,736,866	3,998,143	1.4608	1,009,627	1,474,911	1,507,882	(32,971)
21	335	Hydrants	1,224,985	2,270,616	1.8536	247,598	458,944	460,745	(1,801)
22	336	Backflow Prevention Devices	-	-	-	-	-		-
23	339	Other Plant and Miscellaneous Equipment	1,760,446	1,857,238	1.0550	166,278	175,420	277,127	(101,707)
24	340	Office Furniture and Fixtures	272,173	351,993	1.2933	46,665	60,350	86,215	(25,865)
25	341	Transportation Equipment	535,315	663,541	1.2395	60,636	75,161	173,753	(98,592)
26	342	Stores Equipment	-	-	-	-	-		-
27	343	Tools and Work Equipment	149,365	195,755	1.3106	34,980	45,845	57,187	(11,343)
28	344	Laboratory Equipment	-	-	-	25	-		-
29	345	Power Operated Equipment	-	-	-	-	-		-
30	346	Communications Equipment	39,105	57,138	1.4611	883	1,291	37,410	(36,119)
31	347	Miscellaneous Equipment	0	(0)	-	0	-		-
32	348	Other Tangible Plant	-	0	-	-	-	639	(639)
33		TOTALS	$ 50,295,808	$ 77,319,436		$ 13,361,637	$ 22,407,961	$ 24,502,143	$ (2,094,182)
34									
35	RCN Accumulated Depreciation Per Direct Filing						$ 24,502,143		
36									
37	Increase (decrease) to Accumulated Depreciation						$ (2,094,182)		
38									
39	Adjustment to Accumulated Depreciation						$ (2,094,182)		
40									
41									
42	SUPPORTING SCHEDULES								
43	B-2, page 3								
44	B-3, page 3								

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
Details of Column E - Reclassification of Plant

Exhibit
Rebuttal Schedule B-3
Page 3.4.1
Witness: Bourassa

Line No.	Description	Acquistion Date	Direct Original Cost	(FROM) Direct Plant Account	RCN Factor	Direct RCN Value	(TO) Rebuttal Plant Account	Rebuttal RCN Factor	Rebuttal RCN Value
1									
2									
3									
4									
5	Wells#11 Labor/reinstall 250 hp s	9/30/1996	$ 65,622	307	1.3345	$ 87,572	311	1.3756	$ 90,266
6									
7	Water treatment study	2004	$ 34,062	348	1.0000	$ 34,062	320	1.0673	$ 36,355
8									
9	16" Trans Main	9/30/2005	$1,381,264	330	1.1095	$1,532,512	331	1.0714	$ 1,479,926
10	Design Eng / Fountain Hills	8/14/2006	121,156	330	1.0000	121,156	331	1.0000	121,156
11	Subtotal		$1,502,420			$1,653,668			$ 1,601,081
12									
13	Install wtr svc @ 15038 escab.	10/31/1996	$ 1,203	330	1.4940	$ 1,797	333	1.3764	$ 1,656
14	Install wtr svc @ 16637 almont	10/31/1996	1,309	330	1.4940	1,956	333	1.3764	1,802
15	Install wtr svc @ twn ctr	10/31/1996	1,309	330	1.4940	1,956	333	1.3764	1,802
16	Install wtr svc @ 16353 e.arow	10/31/1996	1,113	330	1.4940	1,663	333	1.3764	1,532
17	Install wtr svc @ 13804 sguaro	10/31/1996	1,264	330	1.4940	1,888	333	1.3764	1,740
18	Install wtr svc @ 13804 sguaro	10/31/1996	1,301	330	1.4940	1,944	333	1.3764	1,791
19	Install wtr svc @16850 Nicklus	10/31/1996	1,353	330	1.4940	2,021	333	1.3764	1,862
20	Install wtr svc @15361 G/eagle	10/31/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
21	rplace wtr svc @14213 anguilar	10/31/1996	1,513	330	1.4940	2,260	333	1.3764	2,083
22	rplace wtr svc @14226 anguilar	10/31/1996	1,407	330	1.4940	2,102	333	1.3764	1,937
23	Install wtr svc @Jiffy lub ctr	10/31/1996	1,407	330	1.4940	2,102	333	1.3764	1,937
24	Install wtr svc @16418 desert	11/30/1996	1,097	330	1.4940	1,639	333	1.3764	1,510
25	rplace wtr svc @13221 wendover	11/30/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
26	rplace wtr svc @11015 inca	11/30/1996	1,293	330	1.4940	1,932	333	1.3764	1,780
27	rplace wtr svc @11449 inca	11/30/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
28	rplace wtr svc @LA Fuenta apts	11/30/1996	1,896	330	1.4940	2,833	333	1.3764	2,610
29	rplace wtr svc @12271 Chama	11/30/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
30	rplace wtr svc @16439 Nicklaus	11/30/1996	1,353	330	1.4940	2,021	333	1.3764	1,862
31	rplace wtr svc @17426 Calico	11/30/1996	1,097	330	1.4940	1,639	333	1.3764	1,510
32	rplace wtr svc @11214 Prtridge	11/30/1996	1,118	330	1.4940	1,670	333	1.3764	1,539
33	rplace wtr svc @14218 Saguaro	11/30/1996	1,248	330	1.4940	1,865	333	1.3764	1,718
34	rplace wtr svc @16932 Parlin	11/30/1996	1,052	330	1.4940	1,572	333	1.3764	1,448
35	rplace wtr svc @ Plat 202	11/30/1996	17,773	330	1.4940	26,553	333	1.3764	24,463
36	rplace wtr svc @16629 Almont	11/30/1996	1,422	330	1.4940	2,124	333	1.3764	1,957
37	rplace wtr svc @ Almont dr (2)	11/30/1996	1,354	330	1.4940	2,023	333	1.3764	1,864
38	rplace wtr svc @ El Pueblo (2)	11/30/1996	1,354	330	1.4940	2,023	333	1.3764	1,864
39	rplace wtr svc@17303 el pueblo	11/30/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
40	rplace wtr svc@17252 el pueblo	11/30/1996	946	330	1.4940	1,413	333	1.3764	1,302
41	water service@ 12031 Lamont	11/30/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
42	rpl wtr svc@ 16069 Glenbrook	11/30/1996	1,602	330	1.4940	2,393	333	1.3764	2,205
43	rpl wtr svc@17005 Enterprise	11/30/1996	1,203	330	1.4940	1,797	333	1.3764	1,656
44	Lab.Mat to install copper serv	12/31/1996	39,965	330	1.4940	59,707	333	1.3764	55,008
45	Lab.Mat to install copper serv	12/31/1996	42,556	330	1.4940	63,579	333	1.3764	58,575
46	Subtotal		$ 138,726			$ 207,256			$ 190,946
47									
48	Service Line 1994	10/26/1994	$ 12,481	334	1.4267	$ 17,806	333	1.4196	$ 17,718
49									
50	Meter installation	1/31/1973	$ 23,674	330	3.7500	$ 88,776	334	1.4411	$ 34,115
51									
52	Fire Hydrant & DIP	3/31/2005	$ 10,368	311	1.0248	$ 10,625	335	1.0816	$ 11,214
53									
54	1996 Mat/Lab instl new hydrant	12/31/1996	$ 42,984	333	1.3764	$ 59,164	335	1.5482	$ 66,549
55									
56	Chairs (5) & Conference Room	12/31/1993	$ 1,814	333	1.4252	$ 2,585	340	1.4021	$ 2,543
57									
58	Collection & Impounding Reservc	2003	$ 6,548	305	1.3993	$ 9,163	330	1.3993	$ 9,163
59									
60	Reclass Adjustment to match Staff PIS								
61	Adds Through 1988		$ 7,075	347	1.7041	12,057	339	1.7041	$ 12,057
62	1990 Additions		33,108	347	1.5425	51,068	339	1.5425	51,068
63	1991 Additions		1,508	347	1.4802	2,232	339	1.4802	2,232
64	1993 Additions		453	347	1.3952	632	339	1.3952	632
65	1994 Additions		210	347	1.3603	286	339	1.3603	286
66	1996 Additions		359	347	1.2849	461	339	1.2849	461
67	2001 Additions		24,590	347	1.1383	27,992	339	1.1383	27,992
68	2004 Additions		16,445	347	1.0672	17,551	339	1.0672	17,551
69	2006 Additions		22,794	347	1.0000	22,794	339	1.0000	22,794
70			$ 106,542			$ 135,072			$ 135,072
71	SUPPORTING SCHEDULES								
72	*B-2, page 3.3.1*								

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-3
Page 5
Witness: Bourassa

Line No.				1	2					
1	General Office Plant Allocation - Plant-in-service		Direct		Intentionally	Rebuttal		Rebuttal	Direct	
2			RCN	Remove	Left	Trended	Allocation	Allocated	Allocated	Rebuttal
3	NARUC	NARUC Description	Value	GO Plant	Blank	RCN Value	Factor	RCN Value	RCN Value	Adjustment
4	301	Organization Cost	16,452			16,452	2.80%	461	528	(68)
5	302	Franchise Cost and Other Intangible Plant	1,089,237	(420,000)		669,237	2.80%	18,739	34,965	(16,227)
6	303	Land and Land Rights	-			-	2.80%	-		-
7	304	Structures and Improvements	9,379,730			9,379,730	2.80%	262,632	301,089	(38,457)
8	305	Collecting and Impounding Res.	-			-	2.80%	-		-
9	306	Lake River and Other Intakes	-			-	2.80%	-		-
10	307	Wells and Springs	-			-	2.80%	-		-
11	308	Infiltration Galleries and Tunnels	-			-	2.80%	-		-
12	309	Supply Mains	-			-	2.80%	-		-
13	310	Power Generation Equipment	-			-	2.80%	-		-
14	311	Electric Pumping Equipment	(1,860)			(1,860)	2.80%	(52)	(60)	8
15	320	Water Treatment Equipment	-			-	2.80%	-		-
16	330	Distribution Reservoirs & Standpipe	-			-	2.80%	-		-
17	331	Transmission and Distribution Mains	-			-	2.80%	-		-
18	333	Services	-			-	2.80%	-		-
19	334	Meters	-			-	2.80%	-		-
20	335	Hydrants	-			-	2.80%	-		-
21	336	Backflow Prevention Devices	-			-	2.80%	-		-
22	339	Other Plant and Miscellaneous Equipment	1,055,403	(1,015,146)		40,256	2.80%	1,127	33,878	(32,751)
23	340	Office Furniture and Fixtures	17,188,237			17,188,237	2.80%	481,271	551,742	(70,471)
24	341	Transportation Equipment	606,575	(296,281)		310,294	2.80%	8,688	19,471	(10,783)
25	342	Stores Equipment	-			-	2.80%	-		-
26	343	Tools and Work Equipment	663,298			663,298	2.80%	18,572	21,292	(2,720)
27	344	Laboratory Equipment	15,358			15,358	2.80%	430	493	(63)
28	345	Power Operated Equipment	634,172			634,172	2.80%	17,757	20,357	(2,600)
29	346	Communications Equipment	260,818			260,818	2.80%	7,303	8,372	(1,069)
30	347	Miscellaneous Equipment	-			-	2.80%	-		-
31	348	Other Tangible Plant	-			-	2.80%	-		-
32										
33			$ 30,907,420	$ (1,731,427)	$ -	$ 29,175,992		$ 816,928	$ 992,128	$ (175,200)
34										
35	GO RCN Plant-in-Service Per Direct Filing							$ 992,128		
36										
37	Increase (Decrease) in GO RCN Plant-in-Service							$ (175,200)		
38										
39	Adjustment to GO RCN Plant-in-Service							$ (175,200)		
40										
41										
42										
43										
44										

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-3
Page 6
Witness: Bourassa

General Office Plant Allocation - Accumulated Depreciation

Line No.	NARUC	NARUC Description	1 Rebuttal Original Cost	2 Rebuttal RCN Value	3=2/1 Rebuttal RCN Ratio	4 Rebuttal Original Cost Accum Depr	5=3x4 Rebuttal RCN Accum. Depr.	6 Allocation Factor	7=5x6 Allocated RCN Accum. Depr.	Direct Allocated RCN Accum. Depr.	Rebuttal RCN Accum. Depr. Adjustment
6	301	Organization Cost	16,452	16,452	1.0000	-	-	2.80%	-	98	(98)
7	302	Franchise Cost and Other Intan. Plant	669,237	669,237	1.0000	57,708	57,708	2.80%	1,616	6,792	(5,176)
8	303	Land and Land Rights	-	-	-	-	-	2.80%	-		-
9	304	Structures and Improvements	4,982,559	9,379,730	1.8825	2,354,430	4,432,244	2.80%	124,103	122,164	1,939
10	305	Collecting and Impounding Res.	-	-	-	-	-	2.80%	-		-
11	306	Lake River and Other Intakes	-	-	-	-	-	2.80%	-		-
12	307	Wells and Springs	-	-	-	-	-	2.80%	-		-
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-	2.80%	-		-
14	309	Supply Mains	-	-	-	-	-	2.80%	-		-
15	310	Power Generation Equipment	-	-	-	-	-	2.80%	-		-
16	311	Electric Pumping Equipment	(916)	(1,860)	2.0302	-	-	2.80%	-		-
17	320	Water Treatment Equipment	-	-	-	-	-	2.80%	-		-
18	330	Distribution Reservoirs & Standpipe	-	-	-	-	-	2.80%	-		-
19	331	Transmission and Distribution Mains	-	-	-	-	-	2.80%	-		-
20	333	Services	-	-	-	-	-	2.80%	-		-
21	334	Meters	-	-	-	-	-	2.80%	-		-
22	335	Hydrants	-	-	-	-	-	2.80%	-		-
23	336	Backflow Prevention Devices	-	-	-	-	-	2.80%	-		-
24	339	Other Plant and Misc Equipment	847,382	40,256	0.0475	(3,450)	(164)	2.80%	(5)	6,500	(6,505)
25	340	Office Furniture and Fixtures	14,268,765	17,188,237	1.2046	8,664,647	10,437,484	2.80%	292,250	335,043	(42,793)
26	341	Transportation Equipment	278,718	310,294	1.1133	278,717	310,293	2.80%	8,688	19,471	(10,783)
27	342	Stores Equipment	-	-	-	-	-	2.80%	-		-
28	343	Tools and Work Equipment	405,643	663,298	1.6352	192,488	314,752	2.80%	8,813	10,104	(1,291)
29	344	Laboratory Equipment	4,061	15,358	3.7818	4,062	15,362	2.80%	430	493	(63)
30	345	Power Operated Equipment	249,261	634,172	2.5442	249,257	634,162	2.80%	17,757	20,357	(2,600)
31	346	Communications Equipment	165,561	260,818	1.5754	165,561	260,818	2.80%	7,303	8,372	(1,069)
32	347	Miscellaneous Equipment	-	-	-	-	-	2.80%	-		-
33	348	Other Tangible Plant	-	-	-	-	-	2.80%	-		-
34			$ 21,886,723	$ 29,175,992		$ 11,963,420	$ 16,462,658			$ 529,394	$ (68,439)
35									$ 460,954		
36											
37	GO RCN Accumulated Depreciation per Direct Filing								$ 529,393		
38											
39	Increase (Decrease) in GO RCN Accumulated Depreciation								$ (68,439)		
40											
41	Adjustment to GO RCN Accumulated Depreciation								$ (68,439)		
42											
43											
44											

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Rebuttal Schedule B-3
Page 7
Witness: Bourassa

Line No.		
1	Reclass CAP Alloaction Costs	
2		
3		
4	CAP Allocation Cost Per Direct Filing	$ 1,280,000
5	RCN Factor	1.0000
6	RCN Value CAP Allocation	$ 1,280,000
7		
8		
9		
10		
11		
12		
13		
14		
15	Increase (Decrease) to RCN Deferred Regulatory Assets	$ (1,280,000)
16		
17		
18		
19	Note: CAP Allocation is reclassed to RCN Land and Land Rights. See B-3, page 3	
20		

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 6

Exhibit
Rebuttal Schedule B-3
Page 8
Witness: Bourassa

Line No.			
1	Cash Working Capital		
2			
3	Adjustment to Cash Working Capital based on RUCO Lead/Lag Study	$	(111,606)
4	RCN Factor		1.0000
5	RCN Value Cash Working Capital	$	(111,606)
6			
7			
8			
9			
10			
11			
12			
13			
14	Increase (Decrease) to Cash Working Capital	$	(111,606)
15			
16			
17			
18			
19			
20			

Chaparral City Water Company
Test Year Ended December 31, 2006
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1			
2	Cash Working Capital	$	(111,606)
3	Prepayments		192,485
4	Materials and Supplies		14,521
5			
6			
7			
8			
9	Total Working Capital Allowance	$	95,400
10			
11			
12	Working Capital Requested	$	95,400
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	RUCO Lead-Lag Study	Rebuttal B-1	
17	E-1	Rebuttal B-2	
18			
19			
20			

Chaparral City Water Company
Test Year Ended December 31, 2006
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Test Year Settlement Adjusted Results	Proposed Rate Increase	Settlement Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 7,364,411	$ 58,310	$ 7,422,721	$ 2,990,957	$ 10,413,678
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	82,289	-	82,289		82,289
5		$ 7,446,700	$ 58,310	$ 7,505,010	$ 2,990,957	$ 10,495,967
6	**Operating Expenses**					
7	Salaries and Wages	$ 969,244	-	$ 969,244		$ 969,244
8	Purchased Water	831,656	(10,186)	821,470		821,470
9	Purchased Power	602,982	11,619	614,600		614,600
10	Chemicals	127,457	-	127,457		127,457
11	Repairs and Maintenance	104,609	(43,217)	61,392		61,392
12	Office Supplies and Expense	19,800	-	19,800		19,800
13	Outside Services	266,544	(38,049)	228,495		228,495
14	Water Testing	43,458	(17,820)	25,638		25,638
15	Rents	-	-	-		-
16	Transportation Expenses	70,430	-	70,430		70,430
17	Insurance - General Liability	(1,294)	-	(1,294)		(1,294)
18	Insurance - Health and Life	-	-	-		-
19	Reg. Commission Exp. - Rate Case	144,871	34,633	179,504		179,504
20	Miscellaneous Expense	1,259,948	38,164	1,298,112		1,298,112
21	Depreciation Expense	1,608,019	(64,075)	1,543,944		1,543,944
22	Amortization of Well Settlement	(76,000)	-	(76,000)		(76,000)
23	Amortization of CAP	64,000	(64,000)	-		-
24	Taxes Other Than Income	47,873	-	47,873		47,873
25	Property Taxes	295,813	(44,320)	251,493		251,493
26	Income Tax	270,020	112,589	382,609	1,154,476	1,537,085
27	**Total Operating Expenses**	$ 6,649,429	$ (84,663)	$ 6,564,766	$ 1,154,476	$ 7,719,242
28	**Operating Income**	$ 797,271	$ 142,973	$ 940,244	$ 1,836,481	$ 2,776,725
29	**Other Income (Expense)**					
30	Interest Income	-	-	-		-
31	Other income (loss)	-	-	-		-
32	Interest Expense	(368,024)	-	(368,024)		(368,024)
33	Other Expense	-	-	-		-
34		-	-	-		-
35	**Total Other Income (Expense)**	$ (368,024)	$ -	$ (368,024)	$ -	$ (368,024)
36	**Net Profit (Loss)**	$ 429,247	$ 142,973	$ 572,219	$ 1,836,481	$ 2,408,700
37						
38	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
39	Rebuttal C-1, page 2				Rebuttal A-1	
40						

Chaparral City Water Company
Test Year Ended December 31, 2006
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		Direct Filing Test Year Adjusted Results	1 Depreciation	2 Property Tax	3 Rate Case Exp.	4 Revenue Annualization	5 CAP Alloc. Amortization	6 Capitalized Expenses	7 Water Testing	8 Purchased Water	9 Purchased Power	10 GO Expense	11 Interest Synch.	12 Income Taxes	Test Year Settlement Adjusted Results
1	**Revenues**														
2	Metered Water Revenues	$ 7,364,411				$ 58,310									$ 7,422,721
3	Unmetered Water Revenues	-													-
4	Other Water Revenues	82,289													82,289
5		$ 7,446,700	$ -	$ -	$ -	$ 58,310	$ -	$ -	$ -			$ -			$ 7,505,010
6	**Operating Expenses**														
7	Salaries and Wages	$ 969,244													$ 969,244
8	Purchased Water	831,656								(10,186)					821,470
9	Purchased Power	602,982									11,619				614,600
10	Chemicals	127,457													127,457
11	Repairs and Maintenance	104,609						(43,217)							61,392
12	Office Supplies and Expense	19,800													19,800
13	Outside Services	266,544						(38,049)							228,495
14	Water Testing	43,458							(17,820)						25,638
15	Rents	-													-
16	Transportation Expenses	70,430													70,430
17	Insurance - General Liability	(1,294)													(1,294)
18	Insurance - Health and Life	-													-
19	Reg. Comm. Exp. - Rate Case	144,871			34,633										179,504
20	Miscellaneous Expense	1,259,948										38,164			1,298,112
21	Depreciation Expense	1,608,019	(64,075)												1,543,944
22	Amortization of Well Settlement	(76,000)													(76,000)
23	Amortization of CAP	64,000					(64,000)								-
24	Taxes Other Than Income	47,873													47,873
25	Property Taxes	295,813		(44,320)											251,493
26	Income Tax	270,020												112,589	382,609
27	**Total Operating Expenses**	$ 6,649,429	$ (64,075)	$ (44,320)	$ 34,633	$ -	$ (64,000)	$ (81,266)	$ (17,820)			$ 38,164		$ 112,589	$ 6,564,766
28	**Operating Income**	$ 797,271	$ 64,075	$ 44,320	$ (34,633)	$ 58,310	$ 64,000	$ 81,266	$ 17,820			$ (38,164)		$ (112,589)	$ 940,244
29	**Other Income (Expense)**	-													
30	Interest Income	-													-
31	Other income (loss)	-													-
32	Interest Expense	(368,024)											36,416		(331,609)
33	Other Expense	-													-
34		-													-
35	**Total Other Income (Expense)**	$ (368,024)	$ -	$ -	$ -	$ -	$ -	$ -	$ -			$ -		$ -	$ (331,609)
36	**Net Profit (Loss)**	$ 429,247	$ 64,075	$ 44,320	$ (34,633)	$ 58,310	$ 64,000	$ 81,266	$ 17,820			$ (38,164)		$ (112,589)	$ 608,635
37															
38	SUPPORTING SCHEDULES:														
39	Rebuttal C-2														
40															

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
1		Depreciation	Property	Rate Case	Revenue	CAP Alloc.	Capitalized	
2		Expense	Taxes	Expense	Annualization	Amortization	Expenses	
3	Revenues				58,310			58,310
4								
5	Expenses	(64,075)	(44,320)	34,633		(64,000)	(81,266)	(219,028)
6								
7	Operating							
8	Income	64,075	44,320	(34,633)	58,310	64,000	81,266	277,338
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	64,075	44,320	(34,633)	58,310	64,000	81,266	277,338
17								
18		Adjustments to Revenues and Expenses						
19		7	8	9	10	11	12	Subtotal
20		Water	Purchased	Purchased	Intentionally	GO	Income	
21		Testing	Water	Power	Left Blank	Expense	Tax	
22	Revenues							58,310
23								
24	Expenses	(17,820)	(10,186)	11,619	38,164	36,416	112,589	(48,247)
25								
26	Operating							
27	Income	17,820	10,186	(11,619)	(38,164)	(36,416)	(112,589)	106,557
28								
29	Interest							
30	Expense							-
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	17,820	10,186	(11,619)	(38,164)	(36,416)	(112,589)	106,557
36								

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Account No.	Description	Direct Adjusted Original Cost	Correction tp match B-2 Direct Filing B-2 Detail	B-2 Adj 1 CAP Allocation Reclassification	B-2 Adj 1 Capitalize Expenses	B-2 Adj 1 Retire Wells 8 & 9 & Wtr Treatment	B-2 Adj 1 Relcassification	B-2 Adj 3 Remove GO Plant	Rebuttal Original Cost	Depr. Rate	Rebuttal Depreciation Expense
5	301	Organization Cost	-	-	-	-	-	-		-	0.00%	-
6	302	Franchise Cost	-	-	-	-	-	-		-	0.00%	-
7	303	Land and Land Rights	271,858	-	1,280,000	-	-	-		1,551,858	0.00%	-
8	304	Structures and Improvements	1,518,648	-	-	11,590	(596)	-		1,529,642	3.33%	50,937
9	305	Collecting and Impounding Res.	6,548	-	-	-	-	(6,548)		-	2.50%	-
10	306	Lake River and Other Intakes	-	-	-	-	-	-		-	2.50%	-
11	307	Wells and Springs	332,065	-	-	-	(106,816)	(65,622)		159,627	3.33%	5,316
12	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-		-	6.67%	-
13	309	Supply Mains	-	-	-	-	-	-		-	2.00%	-
14	310	Power Generation Equipment	-	-	-	-	-	-		-	5.00%	-
15	311	Electric Pumping Equipment	1,483,614	23,294	-	26,084	-	55,253		1,588,246	12.50%	198,531
16	320	Water Treatment Equipment	7,757,814	5,686	-	-	(2,010,923)	34,062		5,786,639	3.33%	192,695
17	330	Dist Reservoirs & Standpipe	8,170,420	-	-	-	-	(1,658,271)		6,512,148	2.22%	144,570
18	331	Trans and Dist Mains	17,450,634	-	-	-	-	1,502,420		18,953,054	2.00%	379,061
19	333	Services	7,389,930	-	-	-	-	106,408		7,496,338	3.33%	249,628
20	334	Meters	2,722,117	3,556	-	-	-	11,193		2,736,866	8.33%	227,981
21	335	Hydrants	1,171,633	-	-	-	-	53,353		1,224,985	2.00%	24,500
22	336	Backflow Prevention Devices	-	-	-	-	-	-		-	6.67%	-
23	339	Other Plant and Misc Equipment	1,610,687	-	-	43,217	-	106,542		1,760,446	6.67%	117,422
24	340	Office Furniture and Fixtures	270,359	-	-	-	-	1,814		272,173	6.67%	18,154
25	341	Transportation Equipment	535,315	-	-	-	-	-		535,315	20.00%	107,063
26	342	Stores Equipment	-	-	-	-	-	-		-	4.00%	-
27	343	Tools and Work Equipment	149,365	-	-	-	-	-		149,365	5.00%	7,468
28	344	Laboratory Equipment	-	-	-	-	-	-		-	10.00%	-
29	345	Power Operated Equipment	-	-	-	-	-	-		-	5.00%	-
30	346	Communications Equipment	39,105	-	-	-	-	-		39,105	10.00%	3,911
31	347	Miscellaneous Equipment	106,542	-	-	-	-	(106,542)		0	10.00%	0
32	348	Other Tangible Plant	34,062	-	-	-	-	(34,062)		-	10.00%	-
33		Rounding	(3)	-						(3)		
34		TOTALS	$ 51,020,714	$ 32,536	$ 1,280,000	$ 80,891	$ (2,118,336)	$ (0)	$ -	$ 50,295,805		$ 1,727,235
35												
36	**General Office Plant Allocated**											
37	301	Organization	528						(67)	461	0.00%	-
38	302	Franch. and Other Intangibles	34,965						(16,226)	18,739	0.00%	-
39	304	Structures and Improvements	186,270						(46,759)	139,512	3.33%	4,646
40	311	Electric Pumping Equipment	(29)						3	(26)	12.50%	-
41	339	Other Plant and Equipment	27,201						(3,474)	23,727	3.33%	790
42	340	Office Furniture and Equipment	458,027						(58,502)	399,525	6.67%	26,636
43	341	Transportation Equipment	17,742						(9,938)	7,804	20.00%	- *
44	343	Tools and Work Equipment	13,021						(1,663)	11,358	5.00%	568
45	344	Laboratory Equipment	130						(17)	114	10.00%	11
46	346	Communication Equipment	5,315						(679)	4,636	10.00%	- *
47	345	Power Operated Equipment	8,001						(1,022)	6,979	5.00%	- *
48	Totals GO Plant		$ 751,172	$ -	$ -	$ -	$ -	$ -	$ (138,344)	$ 612,828		$ 32,651
49												
50	Totals Plant-in-Service		$ 51,771,886		$ 1,280,000	$ 80,891	$ (2,118,336)	$ (0)	$ (138,344)	$ 50,908,633		
51												
52	Less: Amortization of Contributions - Balance		$ 6,288,097							6,288,097	3.4342%	$ (215,943)
53												
54	Total Depreciation Expense											$ 1,543,944
55												
56	Direct Filing Depreciation Expense											$ 1,608,019
57												
58	Increase (decrease) in Depreciation Expense											(64,075)
59												
60	Adjustment to Revenues and/or Expenses											$ (64,075)
61												
62	* Fully depreciated											

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Property Taxes:		
2			
3	Rebuttal Adjusted Revenues in year ended 12/31/06	$	7,505,010
4	Rebuttal Adjusted Revenues in year ended 12/31/06		7,505,010
5	Proposed Revenues		10,495,967
6	Average of three year's of revenue	$	8,501,996
7	Average of three year's of revenue, times 2	$	17,003,991
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		474,679
12			
13	Full Cash Value	$	16,529,313
14	Assessment Ratio		22%
15	Assessed Value		3,636,449
16	Property Tax Rate		6.9159%
17			
18	Property Tax		251,493
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	251,493
22	Property Taxes in the test year		295,813
23	Change in Property Taxes	$	(44,320)
24			
25			
26	Adjustment to Revenues and/or Expenses	$	(44,320)
27			
28			

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Rate case Expense for instant case	$	280,000
4	Rate case expense for Remand	$	258,511
5	Total Rate case expense	$	538,511
6			
7	Estimated Amortization Period (in Years)		3.0
8			
9	Annual Rate Case Expense	$	179,504
10			
11	Test Year Rate Case Expense	$	144,871
12			
13	Increase(decrease) Rate Case Expense	$	34,633
14			
15	Adjustment to Revenue and/or Expense	$	34,633
16			
17			
18			
19			
20			
21			
22			
23			
24			

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Revenue Annualization Adjustment		
2			
3			
4	Revenue Annulization per Rebuttal Filing	$	(250,897)
5	Company Revenue Annualization per Direct Filing		(309,207)
6			
7	Increase (Decrease) in Revenues	$	58,310
8			
9			
10	Adjustment to Revenue and/or Expense	$	58,310
11			
12			
13			
14			
15			
16			
17	SUPPORTING SCHEDULES		
18	C-2, page 5.1 to 5.15		
19			
20			
21			
22			

Chaparral City Water Company
3/4 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.1
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	8,373	8,373	8,373	8,373	8,373	8,373	8,373
2	Actual Customers	8,380	8,370	8,383	8,390	8,380	8,364	8,353
3	Increase in Number of Customers/Bills	(7)	3	(10)	(17)	(7)	9	20
4	Average Revenue / Present Rates	$ 31.10	$ 29.04	$ 28.44	$ 30.82	$ 30.58	$ 37.09	$ 39.14
5	Revenue Annualization / Present Rates	$ (218)	$ 87	$ (284)	$ (524)	$ (214)	$ 334	$ 783
6								
7	Increase in Number of Customers	(7)	3	(10)	(17)	(7)	9	20
8	Average Revenue / Proposed Rates	$ 41.91	$ 39.15	$ 38.33	$ 41.54	$ 41.22	$ 49.98	$ 52.73
9	Revenue Annualization / Proposed Rates	$ (293)	$ 117	$ (383)	$ (706)	$ (289)	$ 450	$ 1,055
10	Additional Gallons to be Produced	(55,604)	21,385	(68,870)	(133,173)	(54,174)	90,894	215,479
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	8,373	8,373	8,373	8,373	8,373	
16	Actual Customers	8,362	8,350	8,355	8,355	8,373	
17	Increase in Number of Customers/Bills	11	23	18	18	-	61
18	Average Revenue / Present Rates	$ 33.41	$ 35.99	$ 31.66	$ 32.67	$ 30.44	
19	Revenue Annualization / Present Rates	$ 367	$ 828	$ 570	$ 588	$ -	$ 2,317
20							
21	Increase in Number of Customers	11	23	18	18	-	
22	Average Revenue / Proposed Rates	$ 45.02	$ 48.50	$ 42.67	$ 44.02	$ 41.03	
23	Revenue Annualization / Proposed Rates	$ 367	$ 828	$ 570	$ 588	$ -	$ 3,122
24	Additional Gallons to be Produced	97,466	223,956	147,029	154,188	-	638,575

Chaparral City Water Company
1 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.2
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	4,118	4,118	4,118	4,118	4,118	4,118	4,118
2	Actual Customers	3,841	3,860	3,910	3,895	3,940	4,028	4,057
3	Increase in Number of Customers/Bills	277	258	208	223	178	90	61
4	Average Revenue / Present Rates	$ 45.93	$ 43.43	$ 42.61	$ 45.87	$ 45.80	$ 52.16	$ 54.23
5	Revenue Annualization / Present Rates	$ 12,723	$ 11,205	$ 8,864	$ 10,229	$ 8,152	$ 4,694	$ 3,308
6								
7	Increase in Number of Customers	277	258	208	223	178	90	61
8	Average Revenue / Proposed Rates	$ 61.77	$ 58.40	$ 57.31	$ 61.69	$ 61.59	$ 70.15	$ 72.95
9	Revenue Annualization / Proposed Rates	$ 17,110	$ 15,068	$ 11,920	$ 13,756	$ 10,963	$ 6,314	$ 4,450
10	Additional Gallons to be Produced	2,553,562	2,122,337	1,643,722	2,050,272	1,631,380	1,052,111	763,324
11								
12								
13								
14		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06		Total Year
15	Year End Number of Customers	4,118	4,118	4,118	4,118	4,118		
16	Actual Customers	4,064	4,080	4,117	4,091	4,118		
17	Increase in Number of Customers/Bills	54	38	1	27	-		1,415
18	Average Revenue / Present Rates	$ 49.86	$ 53.76	$ 48.12	$ 48.22	$ 46.99		
19	Revenue Annualization / Present Rates	$ 2,692	$ 2,043	$ 48	$ 1,302	$ -		$ 65,260
20								
21	Increase in Number of Customers	54	38	1	27	-		
22	Average Revenue / Proposed Rates	$ 67.06	$ 72.31	$ 64.72	$ 64.85	$ 63.20		
23	Revenue Annualization / Proposed Rates	$ 2,692	$ 2,043	$ 48	$ 1,302	$ -		$ 87,764
24	Additional Gallons to be Produced	581,972	468,413	10,089	273,385	-		13,150,567

Chaparral City Water Company
1 1/2 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.3
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	22	22	22	22	22	22	22
2	Actual Customers	20	20	21	21	21	21	22
3	Increase in Number of Customers/Bills	2	2	1	1	1	1	-
4	Average Revenue / Present Rates	$ 137.51	$ 114.83	$ 120.58	$ 125.86	$ 119.32	$ 112.48	$ 129.19
5	Revenue Annualization / Present Rates	$ 275	$ 230	$ 121	$ 126	$ 119	$ 112	$ -
6								
7	Increase in Number of Customers	2	2	1	1	1	1	-
8	Average Revenue / Proposed Rates	$ 184.98	$ 154.45	$ 162.20	$ 169.30	$ 160.50	$ 151.29	$ 173.79
9	Revenue Annualization / Proposed Rates	$ 370	$ 309	$ 162	$ 169	$ 161	$ 151	$ -
10	Additional Gallons to be Produced	73,101	55,101	29,834	31,929	29,334	26,620	-
11								

12		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
13							
14							
15	Year End Number of Customers	22	22	22	22	22	
16	Actual Customers	23	22	22	22	22	
17	Increase in Number of Customers/Bills	(1)	-	-	-	-	7
18	Average Revenue / Present Rates	$ 122.81	$ 132.63	$ 112.98	$ 111.38	$ 107.77	
19	Revenue Annualization / Present Rates	$ (123)	$ -	$ -	$ -	$ -	$ 860
20							
21	Increase in Number of Customers	(1)	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 165.19	$ 178.41	$ 151.97	$ 149.81	$ 144.95	
23	Revenue Annualization / Proposed Rates	$ (123)	$ -	$ -	$ -	$ -	$ 1,157
24	Additional Gallons to be Produced	(30,718)	-	-	-	-	215,200

Chaparral City Water Company
2 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.4
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	39	39	39	39	39	39	39
2	Actual Customers	38	39	39	39	39	39	39
3	Increase in Number of Customers/Bills	1	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 253.25	$ 216.80	$ 216.25	$ 240.19	$ 251.05	$ 289.04	$ 320.32
5	Revenue Annualization / Present Rates	$ 253	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	1	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 340.22	$ 291.16	$ 290.42	$ 322.65	$ 337.26	$ 388.40	$ 430.50
9	Revenue Annualization / Proposed Rates	$ 340	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	71,527	-	-	-	-	-	-
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	39	39	39	39	39	
16	Actual Customers	39	39	39	39	39	
17	Increase in Number of Customers/Bills	-	-	-	-	-	1
18	Average Revenue / Present Rates	$ 291.92	$ 282.84	$ 187.47	$ 297.89	$ 234.12	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ 253
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 392.27	$ 380.05	$ 251.68	$ 400.32	$ 314.47	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ 340
24	Additional Gallons to be Produced	-	-	-	-	-	71,527

Chaparral City Water Company
3 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.5
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	3	3	3	3	3	3	3
2	Actual Customers	3	2	2	2	2	3	2
3	Increase in Number of Customers/Bills	-	1	1	1	1	-	1
4	Average Revenue / Present Rates	$ 269.90	$ 307.28	$ 336.26	$ 365.24	$ 363.98	$ 334.16	$ 417.53
5	Revenue Annualization / Present Rates	$ -	$ 307	$ 336	$ 365	$ 364	$ -	$ 418
6								
7	Increase in Number of Customers	-	1	1	1	1	-	1
8	Average Revenue / Proposed Rates	$ 361.98	$ 412.29	$ 451.30	$ 490.31	$ 488.61	$ 448.47	$ 560.69
9	Revenue Annualization / Proposed Rates	$ -	$ 412	$ 451	$ 490	$ 489	$ -	$ 561
10	Additional Gallons to be Produced	-	64,001	75,501	87,001	86,501	-	107,750
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	3	3	3	3	3	
16	Actual Customers	3	3	3	3	3	
17	Increase in Number of Customers/Bills	-	-	-	-	-	5
18	Average Revenue / Present Rates	$ 289.22	$ 332.48	$ 304.76	$ 335.84	$ 277.46	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ 1,790
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 387.98	$ 446.21	$ 408.90	$ 450.73	$ 372.15	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ 2,403
24	Additional Gallons to be Produced	-	-	-	-	-	420,752

Chaparral City Water Company
3/4 Commercial
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.6
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	115	115	115	115	115	115	115
2	Actual Customers	116	116	114	115	113	114	115
3	Increase in Number of Customers/Bills	(1)	(1)	1	-	2	1	-
4	Average Revenue / Present Rates	$ 48.41	$ 42.45	$ 42.53	$ 45.71	$ 44.38	$ 52.16	$ 57.72
5	Revenue Annualization / Present Rates	$ (48)	$ (42)	$ 43	$ -	$ 89	$ 52	$ -
6								
7	Increase in Number of Customers	(1)	(1)	1	-	2	1	-
8	Average Revenue / Proposed Rates	$ 65.16	$ 57.13	$ 57.24	$ 61.52	$ 59.73	$ 70.20	$ 77.68
9	Revenue Annualization / Proposed Rates	$ (65)	$ (57)	$ 57	$ -	$ 119	$ 70	$ -
10	Additional Gallons to be Produced	(13,005)	(11,035)	11,062	-	23,346	14,242	-
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	115	115	115	115	115	
16	Actual Customers	115	115	116	117	115	
17	Increase in Number of Customers/Bills	-	-	(1)	(2)	-	(1)
18	Average Revenue / Present Rates	$ 49.68	$ 52.52	$ 44.52	$ 49.13	$ 34.73	
19	Revenue Annualization / Present Rates	$ -	$ -	$ (45)	$ (98)	$ -	$ (50)
20							
21	Increase in Number of Customers	-	-	(1)	(2)	-	
22	Average Revenue / Proposed Rates	$ 66.86	$ 70.69	$ 59.92	$ 66.12	$ 46.74	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ (45)	$ (98)	$ -	$ (68)
24	Additional Gallons to be Produced	-	-	(11,720)	(26,479)	-	(13,590)

Chaparral City Water Company
1 Inch Commercial
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.7
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	117	117	117	117	117	117	117
2	Actual Customers	112	113	112	112	112	113	114
3	Increase in Number of Customers/Bills	5	4	5	5	5	4	3
4	Average Revenue / Present Rates	$ 58.36	$ 66.23	$ 63.61	$ 69.71	$ 68.26	$ 91.36	$ 92.10
5	Revenue Annualization / Present Rates	$ 292	$ 265	$ 318	$ 349	$ 341	$ 365	$ 276
6								
7	Increase in Number of Customers	5	4	5	5	5	4	3
8	Average Revenue / Proposed Rates	$ 78.50	$ 89.10	$ 85.56	$ 93.78	$ 91.83	$ 122.92	$ 123.91
9	Revenue Annualization / Proposed Rates	$ 393	$ 356	$ 428	$ 469	$ 459	$ 492	$ 372
10	Additional Gallons to be Produced	70,761	69,099	81,163	93,283	90,404	106,798	80,830
11								

12		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
13							
14							
15	Year End Number of Customers	117	117	117	117	117	
16	Actual Customers	113	117	114	117	117	
17	Increase in Number of Customers/Bills	4	-	3	-	-	38
18	Average Revenue / Present Rates	$ 66.40	$ 70.17	$ 58.27	$ 59.66	$ 53.16	
19	Revenue Annualization / Present Rates	$ 266	$ -	$ 175	$ -	$ -	$ 2,647
20							
21	Increase in Number of Customers	4	-	3	-	-	
22	Average Revenue / Proposed Rates	$ 89.32	$ 94.40	$ 78.38	$ 80.25	$ 71.50	
23	Revenue Annualization / Proposed Rates	$ 266	$ -	$ 175	$ -	$ -	$ 3,561
24	Additional Gallons to be Produced	69,365	-	42,343	-	-	704,047

Chaparral City Water Company
1 1/2 Inch Commercial
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.8
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	67	67	67	67	67	67	67
2	Actual Customers	65	65	65	66	66	65	66
3	Increase in Number of Customers/Bills	2	2	2	1	1	2	1
4	Average Revenue / Present Rates	$ 154.90	$ 150.64	$ 136.31	$ 147.52	$ 147.67	$ 185.11	$ 198.12
5	Revenue Annualization / Present Rates	$ 310	$ 301	$ 273	$ 148	$ 148	$ 370	$ 198
6								
7	Increase in Number of Customers	2	2	2	1	1	2	1
8	Average Revenue / Proposed Rates	$ 208.40	$ 202.66	$ 183.37	$ 198.45	$ 198.66	$ 249.05	$ 266.56
9	Revenue Annualization / Proposed Rates	$ 417	$ 405	$ 367	$ 198	$ 199	$ 498	$ 267
10	Additional Gallons to be Produced	86,909	83,524	72,155	40,523	40,584	110,878	60,500
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	67	67	67	67	67	
16	Actual Customers	66	67	67	67	67	
17	Increase in Number of Customers/Bills	1	-	-	-	-	12
18	Average Revenue / Present Rates	$ 187.15	$ 183.29	$ 163.48	$ 161.57	$ 172.02	
19	Revenue Annualization / Present Rates	$ 187	$ -	$ -	$ -	$ -	$ 1,934
20							
21	Increase in Number of Customers	1	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 251.80	$ 246.60	$ 219.94	$ 217.36	$ 231.44	
23	Revenue Annualization / Proposed Rates	$ 187	$ -	$ -	$ -	$ -	$ 2,602
24	Additional Gallons to be Produced	56,250	-	-	-	-	551,322

Chaparral City Water Company
2 Inch Commercial
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.9
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	71	71	71	71	71	71	71
2	Actual Customers	71	71	71	71	71	71	72
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	(1)
4	Average Revenue / Present Rates	$ 223.05	$ 218.06	$ 217.63	$ 236.71	$ 251.14	$ 294.48	$ 267.22
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ (267)
6								
7	Increase in Number of Customers	-	-	-	-	-	-	(1)
8	Average Revenue / Proposed Rates	$ 299.57	$ 292.86	$ 292.28	$ 317.96	$ 337.38	$ 395.71	$ 359.02
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ (359)
10	Additional Gallons to be Produced	-	-	-	-	-	-	(77,070)
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	71	71	71	71	71	
16	Actual Customers	72	72	71	71	71	
17	Increase in Number of Customers/Bills	(1)	(1)	-	-	-	(3)
18	Average Revenue / Present Rates	$ 244.62	$ 266.60	$ 247.87	$ 225.66	$ 250.45	
19	Revenue Annualization / Present Rates	$ (245)	$ (267)	$ -	$ -	$ -	$ (778)
20							
21	Increase in Number of Customers	(1)	(1)	-	-	-	
22	Average Revenue / Proposed Rates	$ 328.61	$ 358.20	$ 332.99	$ 303.08	$ 336.45	
23	Revenue Annualization / Proposed Rates	$ (245)	$ (267)	$ -	$ -	$ -	$ (1,046)
24	Additional Gallons to be Produced	(68,105)	(76,827)	-	-	-	(222,001)

Chaparral City Water Company
3 Inch Commercial
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.10
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	5	5	5	5	5	5	5
2	Actual Customers	5	5	6	5	5	5	5
3	Increase in Number of Customers/Bills	-	-	(1)	-	-	-	-
4	Average Revenue / Present Rates	$ 203.21	$ 240.50	$ 206.06	$ 239.75	$ 243.27	$ 217.32	$ 245.79
5	Revenue Annualization / Present Rates	$ -	$ -	$ (206)	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	(1)	-	-	-	-
8	Average Revenue / Proposed Rates	$ 272.20	$ 322.40	$ 276.04	$ 321.38	$ 326.13	$ 291.19	$ 329.52
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ (276)	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	(23,834)	-	-	-	-
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	5	5	5	5	5	
16	Actual Customers	5	5	5	5	5	
17	Increase in Number of Customers/Bills	-	-	-	-	-	(1)
18	Average Revenue / Present Rates	$ 281.58	$ 280.82	$ 219.84	$ 211.52	$ 212.53	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ (206)
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 377.69	$ 376.67	$ 294.59	$ 283.39	$ 284.75	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ (276)
24	Additional Gallons to be Produced	-	-	-	-	-	(23,834)

Chaparral City Water Company
34 Inch Irrigation
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.11
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	147	147	147	147	147	147	147
2	Actual Customers	144	144	144	144	144	145	145
3	Increase in Number of Customers/Bills	3	3	3	3	3	2	2
4	Average Revenue / Present Rates	$ 37.16	$ 33.93	$ 32.14	$ 33.03	$ 34.04	$ 40.61	$ 52.33
5	Revenue Annualization / Present Rates	$ 111	$ 102	$ 96	$ 99	$ 102	$ 81	$ 105
6								
7	Increase in Number of Customers	3	3	3	3	3	2	2
8	Average Revenue / Proposed Rates	$ 69.52	$ 62.50	$ 58.60	$ 60.55	$ 62.75	$ 77.03	$ 102.52
9	Revenue Annualization / Proposed Rates	$ 209	$ 188	$ 176	$ 182	$ 188	$ 154	$ 205
10	Additional Gallons to be Produced	45,303	39,095	35,647	37,366	39,314	34,628	49,656
11								

12		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
13							
14							
15	Year End Number of Customers	147	147	147	147	147	
16	Actual Customers	146	146	147	147	147	
17	Increase in Number of Customers/Bills	1	1	-	-	-	21
18	Average Revenue / Present Rates	$ 45.61	$ 49.16	$ 42.35	$ 40.33	$ 35.44	
19	Revenue Annualization / Present Rates	$ 46	$ 49	$ -	$ -	$ -	$ 792
20							
21	Increase in Number of Customers	1	1	-	-	-	
22	Average Revenue / Proposed Rates	$ 87.91	$ 95.62	$ 80.81	$ 76.43	$ 65.79	
23	Revenue Annualization / Proposed Rates	$ 46	$ 49	$ -	$ -	$ -	$ 1,484
24	Additional Gallons to be Produced	20,521	22,795	-	-	-	324,325

Chaparral City Water Company
1 Inch Irrigation
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.12
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	176	176	176	176	176	176	176
2	Actual Customers	166	166	169	167	167	167	167
3	Increase in Number of Customers/Bills	10	10	7	9	9	9	9
4	Average Revenue / Present Rates	$ 81.05	$ 68.21	$ 65.06	$ 66.65	$ 69.18	$ 88.27	$ 110.81
5	Revenue Annualization / Present Rates	$ 811	$ 682	$ 455	$ 600	$ 623	$ 794	$ 997
6								
7	Increase in Number of Customers	10	10	7	9	9	9	9
8	Average Revenue / Proposed Rates	$ 157.37	$ 129.46	$ 122.60	$ 126.06	$ 131.57	$ 173.08	$ 222.08
9	Revenue Annualization / Proposed Rates	$ 1,574	$ 1,295	$ 858	$ 1,135	$ 1,184	$ 1,558	$ 1,999
10	Additional Gallons to be Produced	374,040	291,751	190,059	253,539	268,171	378,300	508,315
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	176	176	176	176	176	
16	Actual Customers	169	171	173	176	176	
17	Increase in Number of Customers/Bills	7	5	3	-	-	78
18	Average Revenue / Present Rates	$ 118.29	$ 102.80	$ 93.47	$ 98.40	$ 90.81	
19	Revenue Annualization / Present Rates	$ 828	$ 514	$ 280	$ -	$ -	$ 6,585
20							
21	Increase in Number of Customers	7	5	3	-	-	
22	Average Revenue / Proposed Rates	$ 238.36	$ 204.67	$ 184.38	$ 195.11	$ 178.59	
23	Revenue Annualization / Proposed Rates	$ 828	$ 514	$ 280	$ -	$ -	$ 12,847
24	Additional Gallons to be Produced	428,949	256,742	136,094	-	-	3,085,959

Chaparral City Water Company
15 Inch Irrigation
Customers to Year End Levels
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule C-2
Page 5.13
Witness: Bourassa

Line No.		Month of Jan-06	Month of Feb-06	Month of Mar-06	Month of Apr-06	Month of May-06	Month of Jun-06	Month of Jul-06
1	Year End Number of Customers	69	69	69	69	69	69	69
2	Actual Customers	66	66	71	67	67	67	68
3	Increase in Number of Customers/Bills	3	3	(2)	2	2	2	1
4	Average Revenue / Present Rates	$ 143.74	$ 116.52	$ 130.08	$ 159.46	$ 145.59	$ 143.38	$ 308.96
5	Revenue Annualization / Present Rates	$ 431	$ 350	$ (260)	$ 319	$ 291	$ 287	$ 309
6								
7	Increase in Number of Customers	3	3	(2)	2	2	2	1
8	Average Revenue / Proposed Rates	$ 274.83	$ 215.65	$ 245.12	$ 309.00	$ 278.85	$ 274.04	$ 634.07
9	Revenue Annualization / Proposed Rates	$ 824	$ 647	$ (490)	$ 618	$ 558	$ 548	$ 634
10	Additional Gallons to be Produced	189,115	136,774	(108,564)	146,225	128,448	125,613	168,949
11								

Line No.		Month of Aug-06	Month of Sep-06	Month of Oct-06	Month of Nov-06	Month of Dec-06	Total Year
12							
13							
14							
15	Year End Number of Customers	69	69	69	69	69	
16	Actual Customers	68	69	69	69	69	
17	Increase in Number of Customers/Bills	1	-	-	-	-	12
18	Average Revenue / Present Rates	$ 174.49	$ 165.27	$ 148.26	$ 206.95	$ 127.05	
19	Revenue Annualization / Present Rates	$ 174	$ -	$ -	$ -	$ -	$ 1,901
20							
21	Increase in Number of Customers	1	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 341.69	$ 321.64	$ 284.65	$ 412.27	$ 238.54	
23	Revenue Annualization / Proposed Rates	$ 174	$ -	$ -	$ -	$ -	$ 3,681
24	Additional Gallons to be Produced	82,750	-	-	-	-	869,309

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
4 Inch Irrigation Meters

Exhibit
Rebuttal Schedule C-2
Page 5.14a

Firerock Canyon Golf Course
Account: 6018551-9

Line No.	Month	2007 Actual Usage	2006 Amount Billed Current Rates	2006 Amount Billed Proposed Rates	2007 Usage		Projected Amount Billed Current Rates	Projected Amount Billed Proposed Rates
7	Jan.	-	$ 227.00	$ 305.00	-	Actual	$ 227.00	$ 305.00
8	Feb.	174,000	498.44	895.21	-	Actual	227.00	305.00
9	Mar.	4,052,000	6,548.12	14,049.38	-	Actual	227.00	305.00
10	Apr.	1,000	228.56	308.39	-	Actual	227.00	305.00
11	May	1,955,000	3,276.80	6,936.36	-	Actual	227.00	305.00
12	Jun.	13,658,000	21,533.48	46,632.94	-	Actual	227.00	305.00
13	Jul.	3,388,000	5,512.28	11,797.10	-	Actual	227.00	305.00
14	Aug.	1,000	228.56	308.39	-	Actual	227.00	305.00
15	Sep.	-	227.00	305.00	-	Actual	227.00	305.00
16	Oct.	-	227.00	305.00	1,000	Actual	228.56	308.39
17	Nov.	-	227.00	305.00	2,371,000	Actual	3,925.76	8,347.43
18	Dec.	429,000	896.24	1,760.17	-	Actual	227.00	227.00
19								
20	Total	23,658,000	$ 39,630.48	$ 83,907.94	2,372,000		$ 6,424.32	$ 11,627.82
21		[1]	[2]	[3]	[4]		[5]	[6]
22								
23								
24	Annualization at present rates [5] - [2]			$ (33,206.16)				
25	Annualization at proposed rates [6] - [3]			$ (72,280.11)				
26	Additional Gallons (in 1,000's) [4] - [1] /1000			(21,286)				
27								
28								
29								
30								

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
4 Inch Irrigation Meters

Exhibit
Rebuttal Schedule C-2
Page 5.14b

Firerock Canyon Golf Course
Account: 6018550-1

Line No.	Month	2006 Actual Usage	2006 Amount Billed Current Rates	2006 Amount Billed Proposed Rates	2007 Usage		Projected Amount Billed Current Rates	Projected Amount Billed Proposed Rates
7	Jan.	-	$ 227.00	$ 305.00	-	Actual	$ 227.00	$ 305.00
8	Feb.	17,000	253.52	362.66	-	Actual	227.00	305.00
9	Mar.	31,614,000	49,544.84	107,539.69	-	Actual	227.00	305.00
10	Apr.	-	227.00	305.00	-	Actual	227.00	305.00
11	May	4,671,000	7,513.76	16,149.03	430,000	Actual	897.80	1,763.56
12	Jun.	11,344,000	17,923.64	38,783.85	1,372,000	Actual	2,367.32	4,958.82
13	Jul.	4,536,000	7,303.16	15,691.11	2,440,000	Actual	4,033.40	8,581.48
14	Aug.	-	227.00	305.00	-	Actual	227.00	305.00
15	Sep.	-	227.00	305.00	-	Actual	227.00	305.00
16	Oct.	-	227.00	305.00	-	Actual	227.00	305.00
17	Nov.	597,000	1,158.32	2,330.02	5,288,000	Actual	8,476.28	18,241.90
18	Dec.	381,000	821.36	1,597.35	-	Actual	227.00	305.00
19								
20	Total	53,160,000	$ 85,653.60	$ 183,978.72	9,530,000		$ 17,590.80	$ 35,985.76
21		[1]	[2]	[3]	[4]		[5]	[6]
22								
23								
24	Annualization at present rates [5] - [2]			$ (68,062.80)				
25	Annualization at proposed rates [6] - [3]			$ (147,992.96)				
26	Additional Gallons (in 1,000's) [4] - [1] /1000			(43,630)				
27								
28								
29								
30								

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
6 Inch Irrigation Meters

Exhibit
Rebuttal Schedule C-2
Page 5.15a
Corrected

Sunridge Canyon G.C.
Account: 6008478-7

Line No.	Month	2006 Actual Usage	2006 Amount Billed Current Rates	2006 Amount Billed Proposed Rates	2007 Usage		Projected Amount Billed Current Rates	Projected Amount Billed Proposed Rates
7	Jan.	-	$ 454.00	$ 610.00	256,000	Actual	$ 227.00	$ 305.00
8	Feb.	505,000	1,241.80	2,322.96	-	Actual	454.00	610.00
9	Mar.	-	454.00	610.00	-	Actual	454.00	610.00
10	Apr.	1,312,000	2,500.72	5,060.30	-	Actual	454.00	610.00
11	May	3,612,000	6,088.72	12,861.90	1,000	Actual	455.56	613.39
12	Jun.	568,000	1,340.08	2,536.66	-	Actual	454.00	610.00
13	Jul.	1,173,000	2,283.88	4,588.82	-	Actual	454.00	610.00
14	Aug.	-	454.00	610.00	-	Actual	454.00	610.00
15	Sep.	-	454.00	610.00	-	Actual	454.00	610.00
16	Oct.	1,503,000	2,798.68	5,708.18	258,000	Actual	856.48	1,485.14
17	Nov.	1,249,000	2,402.44	4,846.61	5,414,000	Actual	8,899.84	18,974.29
18	Dec.	-	454.00	610.00	-	Actual	454.00	610.00
19								
20	Total	9,922,000	$ 20,926.32	$ 40,975.42	5,929,000		$ 14,070.88	$ 26,257.82
21		[1]	[2]	[3]	[4]		[5]	[6]
22								
23								
24	Revenue Annualization at present rates [5] - [2]			$ (6,855.44)				
25	Revenue Annualization at proposed rates [6] - [3]			$ (14,717.61)				
26	Additional Gallons (in 1,000's) [4] - [1] /1000			(3,993)				
27								
28								
29								
30								

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
6 Inch Irrigation Meters

Exhibit
Rebuttal Schedule C-2
Page 5.15b

Eagle Mountain G.C.
Account: 60015014-1

Line No.	Month	2006 Actual Usage	2006 Amount Billed Current Rates	2006 Amount Billed Proposed Rates	2007 Usage		Projected Amount Billed Current Rates	Projected Amount Billed Proposed Rates
7	Jan.	13,051,000	$ 20,813.56	$ 44,878.99	-	Actual	$ 454.00	$ 610.00
8	Feb.	13,621,000	21,702.76	46,812.43	-	Actual	454.00	610.00
9	Mar.	10,783,000	17,275.48	37,185.94	-	Actual	454.00	610.00
10	Apr.	21,261,000	33,621.16	72,727.31	-	Actual	454.00	610.00
11	May	24,574,000	38,789.44	83,965.01	-	Actual	454.00	610.00
12	Jun.	31,629,000	49,795.24	107,895.57	192,000	Actual	753.52	1,261.26
13	Jul.	21,573,000	34,107.88	73,785.62	344,000	Actual	990.64	1,776.85
14	Aug.	9,097,000	14,645.32	31,467.02	11,018,000	Actual	17,642.08	37,983.06
15	Sep.	84,000	585.04	894.93	10,315,000	Actual	16,545.40	35,598.48
16	Oct.	1,119,000	2,199.64	4,405.65	4,432,000	Actual	7,367.92	15,643.34
17	Nov.	21,785,000	34,438.60	74,504.72	-	Actual	454.00	610.00
18	Dec.	2,645,000	4,580.20	9,581.84	-	Actual	454.00	610.00
19								
20	Total	171,222,000	$ 272,554.32	$ 588,105.02	26,301,000		$ 46,477.56	$ 96,532.99
21		[1]	[2]	[3]	[4]		[5]	[6]

24	Revenue Annualization at present rates [5] - [2]	$ (226,076.76)
25	Revenue Annualization at proposed rates [6] - [3]	$ (491,572.03)
26	Additional Gallons (in 1,000's) [4] - [1] /1000	(144,921)

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Remove Amortization of CAP Allocation		
2			
3			
4	CAP Amortization Per Direct Filing (See also Staff Adj. 5 on Sch MEM-18)	$	64,000
5			
6			
7			
8			
9			
10			
11	Adjustment to Revenue and/or Expense	$	(64,000)
12			
13			
14			
15			
16			
17			
18			
19			
20			

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Line No.				
1	Capitalized Expenses			
2				
3				
4	Remove Capitalized Expenses in Outside Services Expense (Staff Schedule MEM-10)	$	(37,674)	
5	Disallowed Late Filing Pentalty (per Staff Adj. #10, schedule MEM-23)		(45)	
6	Rate Case Expense for Appellate Counrt (per Staff Adj. #10, schedule MEM-23)		(330)	
7				
8	Increase(Decrease) in Outside Services Expense			$ (38,049)
9				
10				
11	Remove Capitalized Expenses in Repairs and maintenance (RUCO Schedule MEM-10)	$	(43,217)	
12				
13	Increase(Decrease) in Repairs and Maitnenance			$ (43,217)
14				
15				
16	Adjustment to Revenue and/or Expense			$ (81,266)
17				
18				
19				
20				
21				
22				
23				
24				
25				

Chaparral City Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Water Testing Expense		
2			
3			
4	Water Testing Expense per Staff (Staff schedule MEM-24)	$	25,638
5			
6	Water Testing Expense per Direct Filing		43,458
7			
8			
9	Increase (decrease) in Water testing Expense	$	(17,820)
10			
11			
12			
13			
14	Adjustment to Revenue and/or Expense	$	(17,820)
15			
16			
17			
18			
19			
20			
21			
22			
23			

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Rebuttal Schedule C-2
Page 9
Witness: Bourassa

Line No.							
1	Purchased Water						
2							
3	Central Arizona Project water allocation 2006 (acre feet)		6,978				
4	Additional CAP allocation (acre feet) - Adjusted by 50%		966				
5	Central Arizona Project water allocation 2006 (acre feet)		7,944				
6	2008 capital cost per acre foot (take or pay)	$	21				
7	Total Capital Cost			$	166,814		
8							
9	Central Arizona Project water delivered 2006 (acre feet)		6,978				
10	Excess CAP water delivered 2006 (acre feet)		260				
11	Additional gallons from annualization in acre feet		(596)				
12	Total CAP water (acre feet)		6,642				
13	2008 delivery cost per acre foot	$	92				
14	Total M&I Cost			$	611,106		
15							
16	Total CAP purchased water					$	777,920
17							
18	Ground Water pumped 2006 in acre feet		260				
19	Excess Capacity percentage		67%				
20	Total projected gallons pumped				174		
21	Central Arizona Ground Water Replenishment District Assessment Fee per acre foot			$	250		
22							43,550
23							
24	Total Purchased Water Cost					$	821,470
25	Rebuttal Purchased Water Cost						831,656
26	Increase (decrease)					$	(10,186)
27							
28							
29	Adjustment to Revenue and/or Expense					$	(10,186)
30							
31							
32							

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Rebuttal Schedule C-2
Page 10
Witness: Bourassa

Line No.				
1	Annualize power cost for additonal gallons from annualization of revenues			
2				
3				
4	Gallons sold in Test Year (1,000's)	2,084,339		
5	Cost per 1,000 gallons per Direct Filing	0.32514		
6	Additonal gallons from annualization (in 1,000's) in adjustment 6	(194,058)		
7				
8	Rebuttal Purchased Power adjustment		$	(63,095)
9				
10	Direct Purchased Power Adjustment		$	(74,714)
11				
12	Adjustment to Revenue and/or Expense		$	11,619
13				
14				
15				
16				
17	SUPPORTING SCHEDULES			
18	Rebuttal H-1			
19	Direct C-2, page 11			
20				
21				

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Rebuttal Schedule C-2
Page 11
Witness: Bourassa

Line No.			
1	Miscellaneous Expense		
2			
3			
4	GO Allocation Expense Pool Per Direct Filing	$ 34,557,114	
5	Adjustments:		
6	Memebership dues for California	(251,538)	
7	Investor related expenses	(1,040,585)	
8	Adjusted GO Allocation Expense Pool per Rebuttal		$ 33,264,991
9			
10	Allocation factor		4.00%
11			
12	Revised aallocation of GO expenses		$ 1,330,600
13			
14	Allocated GO expenses per Direct filing		$ 1,292,436
15			
16	Increase (decrease) in Miscellaneous Expense		$ 38,164
17			
18			
19			
20			
21	Adjustment to Revenue and/or Expense		$ 38,164
22			
23			
24			
25			

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Rebuttal Schedule C-2
Page 12
Witness: Bourassa

Line No.			
1	Interest Synchronization		
2			
3	Fari Value Rate Base	$ 27,767,249	
4	Weighted cost of debt (from D-1) (short and long-term)	1.194%	
5	Interest Expense per Rebuttal Filing		$ 331,609
6	Interest Expense per Direct Filing		368,024
7			
8	Increase (decrease) in Interest Expense		(36,416)
9			
10	Adjustment to Revenues and/or Expense		36,416
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Chaparral City Water Company
Test Year Ended December 31, 2006
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	31.63%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	38.60%
9		
10	Operating Income % = 100% - Tax Percentage	61.40%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

Chaparral City Water Company
Test Year Ended December 31, 2006
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year Cost Rate	End of Test Year Weighted Cost	End of Projected Year Dollar Amount	End of Projected Year Percent of Total	End of Projected Year Cost Rate	End of Projected Year Weighted Cost
1	Short-Term Debt[1]	$ 1,400,000	3.97%	3.98%	0.16%	$ 1,400,000	3.89%	3.98%	0.15%
2									
3	Long-Term Debt	$ 6,865,000	19.45%	5.33%	1.04%	$ 6,585,000	18.28%	5.36%	0.98%
4									
5	Stockholder's Equity	$ 27,028,873	76.58%	11.50%	8.81%	$ 29,437,573	81.72%	11.50%	9.40%
6									
7	Totals	$ 35,293,873	100.00%		10.00%	$ 36,022,573	100.00%		10.38%
8									
9									
10	Rebuttal Adjustments to Equity								
11	Capitalized Expenses	$ 32,536	See B-2, page 3						
12	Accumulated Depreciation	$ (2,875)	See B-2, page 4						
13	A/D for Capitalize Expenses	$ (3,265)	See B-2, page 4						
14									
15									
16	[1] Current one year LIBOR rate (12 month LIBOR as reported on Oct 16, 2008 by www.economagic.com)								
17									
18									
19									
20									
21									
22									
23									
24	SUPPORTING SCHEDULES:								
25	Rebuttal D-2								
26	Rebuttal D-3								
27	Rebuttal D-4								
28									
29									
30									
31									
32									
33									
34									
35									
36									
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38									
39									
40									
41									
42									
43									
44									

RECAP SCHEDULES:

Chaparral City Water Company
Test Year Ended December 31, 2006
Cost of Long Term Debt

Exhibit
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2	Series 1997A serial bonds, due 1998 to 2007 (4% to 4.85%)	240,000	11,040	4.60%	0.16%	-	-	4.60%	0.00%
3	Series 1997A term bonds, due Dec. 2011 (5.20%)	1,000,000	52,000	5.20%	0.76%	960,000	49,920	5.20%	0.76%
4	Series 1997A term bonds, due Dec. 2022 (5.40%)	4,610,000	248,940	5.40%	3.63%	4,610,000	248,940	5.40%	3.78%
5	Series 1997B term bonds, due Dec. 2022 (5.30%)	1,015,000	53,795	5.30%	0.78%	1,015,000	53,795	5.30%	0.82%
6									
7									
8									
9									
10									
11									
12									
13	Totals	$6,865,000	365,775		5.33%	$ 6,585,000	352,655		5.36%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									

Chaparral City Water Company
Test Year Ended December 31, 2006
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	Amount	Dividend Requirement	End of Projected Year Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	E-1			Rebuttal D-1			
19							
20							

Chaparral City Water Company
Test Year Ended December 31, 2006
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line
No.

The Company is proposing a cost of common equity of 11.5%.

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
Rebuttal D-1

Chaparral City Water Company
Summary of Results

Exhibit
Rebuttal Schedule D-4.0
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4	Method	Low	High	Midpoint
5	DCF Constant Growth	11.1%	14.4%	12.7%
6	DCF Sustainable Growth	9.0%	11.4%	10.2%
7	DCF Two-Stage	10.6%	12.7%	11.6%
8				
9	Average DCF Results	10.2%	12.8%	11.5%
10				
11	CAPM	10.7%	18.3%	14.5%
12				
13	Average DCF and CAPM Results	10.5%	15.6%	13.0%
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

Chaparral City Water Company
Selected Characteristics of Water Utilities

Exhibit
Rebuttal Schedule D-4.1
Witness: Bourassa

Line No.	Company	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	American States	82%	$ 299.1	$ 701.8	A	A2
2	Aqua America	87%	$ 604.6	$ 2,466.5	AA-	NR
3	California Water	97%	$ 387.2	$ 929.5	NR	NR
4	Connecticut Water	85%	$ 61.3	$ 239.2	AAA	NR
5	Middlesex	90%	$ 88.0	$ 302.3	A	NR
6	SJW Corp.	95%	$ 208.8	$ 546.0	NR	NR
7						
8	Average	89%	$ 274.8	$ 864.2		
9						
10	Chaparral City Water Company	100%	$ 7.8	$ 33.7	NR	NR

Source: AUS Utility Reports (September 2008)

Chaparral City Water Company
Capital Structures of Water Utilities

Exhibit
Rebuttal Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
	Company				
1.	American States	46.5%	53.5%	28.4%	71.6%
2.	Aqua America	55.4%	44.6%	34.2%	65.8%
3.	California Water	43.1%	56.9%	26.9%	73.1%
4.	Connecticut Water	48.0%	52.0%	29.8%	70.2%
5.	Middlesex	49.7%	50.3%	36.0%	64.0%
6.	SJW Corp.	47.7%	52.3%	28.6%	71.4%
	Average	48.4%	51.6%	30.6%	69.4%
	Chaparral City Water Company			N/A	N/A

Sources:
Value Line Analyzer Data (September 2008)

Chaparral City Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.3
Page 1
Witness: Bourassa

Line No.	Company	Five-year historical compound annual changes Price	Book Value	DPS	EPS	Average Future Growth[1]
7	1. American States	13.68%	4.53%	1.99%	6.53%	8.25%
8	2. Aqua America	13.72%	9.84%	8.45%	5.63%	8.38%
9	3. California Water	12.76%	7.11%	0.70%	3.71%	8.23%
10	4. Connecticut Water	1.91%	3.50%	1.51%	Negative	8.97%
11	5. Middlesex	6.86%	6.34%	1.93%	3.57%	8.00%
12	6. SJW Corp.	24.69%	8.96%	7.24%	5.92%	12.00%
15	GROUP AVERAGE	12.27%	6.71%	3.64%	5.07%	8.97%
16	GROUP MEDIAN	13.22%	6.73%	1.96%	5.63%	8.31%

[1] See Rebuttal Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Chaparral City Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.4
Page 1
Witness: Bourassa

Line No.	Company	Ten-year historical compound annual changes Price	Book Value	DPS	EPS	Average Future Growth[1]
1	1. American States	12.35%	4.54%	1.47%	4.53%	8.25%
2	2. Aqua America	13.87%	9.39%	7.18%	7.64%	8.38%
3	3. California Water	6.33%	3.59%	0.91%	Negative	8.23%
4	4. Connecticut Water	8.84%	3.76%	1.26%	1.08%	8.97%
5	5. Middlesex	9.88%	3.98%	1.98%	2.65%	8.00%
6	6. SJW Corp.	16.43%	4.85%	5.13%	2.66%	12.00%
7						
8	GROUP AVERAGE	11.28%	5.02%	2.99%	3.71%	8.97%
9	GROUP MEDIAN	11.12%	4.26%	1.72%	2.66%	8.31%
10						
11	1 See Rebuttal Schedule D-4.5					
12						
13	Sources:					
14	Value Line Data					
15	Yahoo Finance					

Chaparral City Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.5
Witness: Bourassa

Line No.		(1)	(2)		(3)	(4)
		EPS GROWTH				Average
	Company	Zacks	Morningstar	Yahoo	Value Line	Growth (G) (Cols 1-3)
1.	American States	12.00%	7.00%	4.00%	10.00%	8.25%
2.	Aqua America	9.00%	7.50%	8.00%	9.00%	8.38%
3.	California Water	9.00%	7.70%	7.70%	8.50%	8.23%
4.	Connecticut Water					8.97%
5.	Middlesex	8.00%		8.00%	8.00%	8.00%
6.	SJW Corp.	10.00%	18.00%	10.00%	10.00%	12.00%
	GROUP AVERAGE	9.60%	10.05%	7.54%	9.10%	8.97%
	GROUP MEDIAN					8.31%

Sources:
Value Line Investment Analyzer Data September 2008
Zacks Investment Research Site October 10, 2008
Morningstar Website October 16, 2008
Yahoo Finance October 20, 2008

Chaparral City Water Company
Estimates of Sustainable Growth

Exhibit
Rebuttal Schedule D-4.6
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
	Company	Retention Ratio	Rate of Return	br Growth	sv Growth	Average Sustainable Growth (Cols 3+4)
1.	American States	0.52	13.50%	7.02%	1.10%	8.12%
2.	Aqua America	0.43	12.00%	5.20%	0.60%	5.80%
3.	California Water	0.49	11.00%	5.34%	2.51%	7.84%
4.	Connecticut Water					
5.	Middlesex					
6.	SJW Corp.					
	GROUP AVERAGE	0.48	12.17%	5.85%	1.40%	7.26%
	GROUP MEDIAN	0.49	12.00%	5.34%	1.10%	7.84%

Sources:
Value Line Data

Chaparral City Water Company
Estimates of sv Growth

Exhibit
Rebuttal Schedule D-4.7
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)
		Stock Financing	Current Market to Book		sv
	Company	Rate	Ratio	v	Growth
1.	American States	2.03%	2.19	0.54	1.10%
2.	Aqua America	1.03%	2.39	0.58	0.60%
3.	California Water	4.87%	2.06	0.51	2.51%
4.	Connecticut Water				na
5.	Middlesex				na
6.	SJW Corp.				na
	GROUP AVERAGE	2.65%	2.21	0.55	1.40%
	GROUP MEDIAN	2.03%	2.19	0.54	1.10%

Sources:
Value Line Data

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit
Rebuttal Schedule D-4.8
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Growth (g)[1]	Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1.	American States	38.48	1.08	2.81%	8.25%	11.1%
2.	Aqua America	17.55	0.56	3.19%	8.38%	11.6%
3.	California Water	37.87	1.18	3.12%	8.23%	11.3%
4.	Connecticut Water	25.81	0.90	3.49%	8.97%	12.5%
5.	Middlesex	17.18	0.72	4.19%	8.00%	12.2%
6.	SJW Corp.	29.52	0.70	2.39%	12.00%	14.4%
	GROUP AVERAGE			3.20%	8.97%	12.2%
	GROUP MEDIAN					11.9%

[1] See Schedules D-4.5

Sources:
Value Line Investment Analyzer Data September 2008
Yahoo Finance October 2, 2008

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Sustainable Growth[1]			Indicated Cost of Equity
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	br	vs	br+sv Growth (g)	k=Div Yld + g (Cols 3+6)
1	1. American States	38.48	1.08	2.81%	7.02%	1.10%	8.12%	10.9%
2	2. Aqua America	17.55	0.56	3.19%	5.20%	0.60%	5.80%	9.0%
3	3. California Water	37.87	1.18	3.12%	5.34%	2.51%	7.84%	11.0%
4	4. Connecticut Water	25.81	0.90	3.49%			7.26%	10.7%
5	5. Middlesex	17.18	0.72	4.19%			7.26%	11.4%
6	6. SJW Corp.	29.52	0.70	2.39%			7.26%	9.6%
7								
8								
9	GROUP AVERAGE			3.20%			7.26%	10.5%
10	GROUP MEDIAN							10.8%
11								
12								
13	1 See Rebuttal Schedule D-4.6 and D-4.7							
14								
15								
16	Sources:							
17	Value Line Investment Analyzer Data September 2008							
18	Yahoo Finance October 2, 2008							

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit
Rebuttal Schedule D-4.10
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Projected Growth Rates			
		Spot	Next Year's	Yield	Near	Long		Indicated Cost of
	Company	Price(P_0)	Div (D_1)	(D_1/P_0)	Term[1]	Term (GDP)	Average[1]	Equity
	1. American States	38.48	1.08	2.81%	8.25%	6.80%	7.77%	10.6%
	2. Aqua America	17.55	0.56	3.19%	8.38%	6.80%	7.86%	11.0%
	3. California Water	37.87	1.18	3.12%	8.23%	6.80%	7.75%	10.9%
	4. Connecticut Water	25.81	0.90	3.49%	8.97%	6.80%	8.25%	11.7%
	5. Middlesex	17.18	0.72	4.19%	8.00%	6.80%	7.60%	11.8%
	6. SJW Corp.	29.52	0.70	2.39%	12.00%	6.80%	10.28%	12.7%
	GROUP AVERAGE			3.20%			8.25%	11.5%
	GROUP MEDIAN							11.4%

1 See Rebuttal Schedule D-4.5
[2] Near term growth given weighting of .67

Chaparral City Water Company
Market Betas

Exhibit
Rebuttal Schedule D-4.11
Witness: Bourassa

Line No.		Company	
1			
2	1.	American States	0.95
3	2.	Aqua America	1.00
4	3.	California Water	1.10
5	4.	Connecticut Water	0.80
6	5.	Middlesex	0.90
7	6.	SJW Corp.	1.15
8		Average	**0.98**
9			
10	Source:		
11	Value Line Investment Analyzer Data September 2008		
12			
13			
14			
15			
16			

Chaparral City Water Company
Computation of Current Market Risk Premium

Exhibit
Rebuttal Schedule D-4.12
Witness: Bourassa

Line No.	Month	Dividend Yield	+	Growth	=	Expected Market Return	-	Monthly Average 30 Year Treasury Rate	=	Market Risk Premium
1										
2										
3	**Month**									
4										
5	Jun	2.17%	+	9.71%	=	11.88%	-	5.20%	=	6.68%
6	Jul	2.27%	+	10.91%	=	13.18%	-	5.11%	=	8.07%
7	Aug	2.37%	+	11.92%	=	14.29%	-	4.93%	=	9.36%
8	Sept	2.31%	+	11.16%	=	13.47%	-	4.79%	=	8.68%
9	Oct	2.45%	+	11.90%	=	14.35%	-	4.77%	=	9.58%
10	Nov	2.60%	+	13.41%	=	16.01%	-	4.52%	=	11.49%
11	Dec 2007	2.61%	+	13.51%	=	16.12%	-	4.52%	=	11.60%
12	Jan 2008	2.67%	+	15.19%	=	17.86%	-	4.33%	=	13.53%
13	Feb	2.74%	+	16.47%	=	19.21%	-	4.52%	=	14.69%
14	March	2.85%	+	17.64%	=	20.49%	-	4.39%	=	16.10%
15	April	2.69%	+	15.73%	=	18.42%	-	4.44%	=	13.98%
16	May	2.73%	+	15.51%	=	18.24%	-	4.60%	=	13.64%
17	Jun	3.13%	+	18.51%	=	21.64%	-	4.69%	=	16.95%
18	Jul	3.15%	+	18.61%	=	21.76%	-	4.57%	=	17.19%
19	Aug	3.06%	+	17.08%	=	20.14%	-	4.50%	=	15.64%
20	Sept	3.07%	+	19.30%	=	22.37%	-	4.27%	=	18.10%
21										
22	Recent 12 Mon Avg	2.81%	+	16.07%	=	18.88%	-	4.51%	=	**14.37%**
26										
27	Short-term Trends									
28	Recent Nine Months Avg	2.90%	+	17.12%	=	20.01%	-	4.48%	=	15.54%
29	Recent Six Months Avg	2.97%	+	17.46%	=	20.43%	-	4.51%	=	15.92%
30	Recent Three Months Avg	3.09%	+	18.33%	=	21.42%	-	4.45%	=	16.98%
31										
32	Sources									
33	Value Line Investment Analyzer Software Data									
34	Federal Reserve									
35										

Chaparral City Water Company
Test Year Ended December 31, 2006
Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.13
Witness: Bourassa

Line No.		Rf	+	beta[3]	x	Rp	=	k
1								
2								
3	Historical Market Risk Premium CAPM[1]	3.4%	+	0.98	x	7.5% [4]	=	10.7%
4								
5	Current Market Risk Premium CAPM[2]	4.3%	+	0.98	x	14.4% [5]	=	18.3%
6								
7								
8	Average							14.5%
9								
10								
11								

12 [1] Federal Reserve October 16, 2008 average of 5, 7 and 10 year Treasury rates (Rf)
13 [2] Federal Reserve October 16, 2008 30 year Treasury rate (Rf)
14 [3] Value Line Investment Analyzer data. See Schedule D-4.11
15 [4] Historical Market Risk Premium from (Rp) MoriningStar SBBI 2008 Yearbook Table A-2 Intermediate-Horizon ERP 1926-2007
16 [5] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
17 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.12.
18
19
20

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$ 3,455,850	$ 4,655,740	$ 1,199,890	34.72%	45.08%	42.24%
2	1 Inch	Residential	2,342,394	3,150,272	807,877	34.49%	30.56%	28.58%
3	1.5 Inch	Residential	31,414	42,256	10,842	34.51%	0.41%	0.38%
4	2 Inch	Residential	123,686	166,173	42,487	34.35%	1.61%	1.51%
5	3 Inch	Residential	10,012	13,436	3,424	34.19%	0.13%	0.12%
6								
7		Subtotal	5,963,356	8,027,876	2,064,520	34.62%	77.79%	72.84%
8								
9	3/4 Inch	Commercial	$ 67,867	$ 91,337	23,471	34.58%	0.89%	0.83%
10	1 Inch	Commercial	98,616	132,660	34,044	34.52%	1.29%	1.20%
11	1.5 Inch	Commercial	140,840	189,480	48,639	34.54%	1.84%	1.72%
12	2 Inch	Commercial	222,208	298,523	76,315	34.34%	2.90%	2.71%
13	3 Inch	Commercial	14,217	19,056	4,839	34.04%	0.19%	0.17%
14	4 Inch	Commercial	34,290	46,128	11,838	34.52%	0.45%	0.42%
15								
16		Subtotal	$ 578,038	$ 777,183	$ 199,146	34.45%	7.54%	7.05%
17								
18	3/4 Inch	Industrial	$ 304	$ 410	$ 106	34.78%	0.00%	0.00%
19	1 Inch	Industrial	272	366	94	34.36%	0.00%	0.00%
20	1.5 Inch	Industrial	328	441	113		0.00%	0.00%
21								
22		Subtotal	$ 904	$ 1,216	312	34.53%	0.01%	0.01%
23								
24	3/4 Inch	Irrigation	$ 69,200	$ 130,820	61,620	89.05%	0.90%	1.19%
25	1 Inch	Irrigation	178,745	350,299	171,554	95.98%	2.33%	3.18%
26	1.5 Inch	Irrigation	134,012	260,613	126,602		1.75%	2.36%
27	2 Inch	Irrigation	161,987	314,013	152,026	93.85%	2.11%	2.85%
28	4 Inch	Irrigation	152,769	322,747	169,977	111.26%	1.99%	2.93%
29	6 Inch	Irrigation	322,475	687,598	365,123	113.23%	4.21%	6.24%
30								
31		Subtotal	1,019,188	2,066,090	1,046,902	102.72%	13.30%	18.75%
32								
33	3/4 Inch	Construction	$ 181	$ 259	77	42.77%	0.00%	0.00%
34	1 Inch	Construction	1,357	2,328	971	71.57%	0.02%	0.02%
35	2 Inch	Construction	646	1,099	$ 453	70.11%	0.01%	0.01%
36	3 Inch	Construction	18,826	35,555				
37	4 Inch	Construction	2,247	3,753	$ 1,507	67.07%	0.03%	0.03%
38								
39		Subtotal	$ 23,256	$ 42,993	$ 19,737	84.87%	0.30%	0.39%
40								
41	3 Inch	Fire Hydrant Meter (Irrigation)	$ 65,878	$ 88,263	22,385	33.98%	0.86%	0.80%
42	4 Inch	Fire Hydrant Meter (Irrigation)	9,178	12,350	3,173	34.57%	0.12%	0.11%
43								
44		Subtotal	$ 75,055	$ 100,613	25,558	34.05%	0.98%	0.91%
45								
46	34 inch	Fire Sprinkler	$ 5,164	$ 5,165	1	0.03%	0.07%	0.05%
47	1 Inch	Fire Sprinkler	244	245	1	0.54%	0.00%	0.00%
48	1.5 Inch	Fire Sprinkler	363	363	1	0.24%	0.00%	0.00%
49								
50		Subtotal	$ 5,770	$ 5,774	3	0.06%	0.08%	0.05%
51								
51	Total Revenues Before Annualization		$ 7,665,568	$ 11,021,746	$ 3,356,178	43.78%	100.00%	100.00%
52								

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills to be Sold	Additional Gallons to be Pumped (In 1,000's)	Schedule Number
			Revenue Annualization						
5	3/4 Inch	Residential	$ 2,317	$ 3,122	805	34.74%	61	639	C-2, P7.1
6	1 Inch	Residential	65,260	87,764	22,504	34.48%	1,415	13,151	C-2, P7.2
7	1.5 Inch	Residential	860	1,157	297	34.51%	7	215	C-2, P7.3
8	2 Inch	Residential	253	340	87	34.34%	1	72	C-2, P7.4
9	3 Inch	Residential	1,790	2,403	613	34.23%	5	421	C-2, P7.5
11		Subtotal	$ 70,480	$ 94,786	24,306	34.49%	1,489	14,497	
13	3/4 Inch	Commercial	$ (50)	$ (68)	(17)	0.00%	(1)	(14)	C-2, P7.6
14	1 Inch	Commercial	2,647	3,561	914	34.52%	38	704	C-2, P7.7
15	1.5 Inch	Commercial	1,934	2,602	668	34.54%	12	551	C-2, P7.8
16	2 Inch	Commercial	(778)	(1,046)	(267)	0.00%	(3)	(222)	C-2, P7.9
17	3 Inch	Commercial	(206)	(276)	(70)	0.00%	(1)	(24)	C-2, P7.10
18	4 Inch	Commercial	-	-	-	0.00%	-	-	
20		Subtotal	$ 3,547	$ 4,774	49,839	1405.30%	45	996	
22	3/4 Inch	Industrial	$ -	$ -	-	0.00%	-	-	
23	1 Inch	Industrial	-	-	-	0.00%	-	-	
24	1.5 Inch	Industrial	-	-	-	0.00%	-	-	
26		Subtotal	$ -	$ -	-	0.00%	-	-	
28	3/4 Inch	Irrigation	$ 792	$ 1,484	693	87.53%	21	324	C-2, P7.11
29	1 Inch	Irrigation	6,585	12,847	6,262	95.10%	78	3,086	C-2, P7.12
30	1.5 Inch	Irrigation	1,901	3,681	1,780	93.63%	12	869	C-2, P7.13
31	2 Inch	Irrigation	-	-	-	0.00%	-	-	
32	4 Inch	Irrigation	(101,269)	(220,273)	(119,004)	0.00%	(2)	(64,916)	C-2, P7.14a&b
33	6 Inch	Irrigation	(232,932)	(506,290)	(273,357)	0.00%	-	(148,914)	C-2, P7.15a&b
35		Subtotal	$ (324,924)	$ (708,551)	(383,627)	118.07%	109	(209,550)	
37	3/4 Inch	Construction	$ -	$ -	-	0.00%	-	-	
38	1 Inch	Construction	-	-	-	0.00%	-	-	
39	2 Inch	Construction	-	-	-	0.00%	-	-	
40	3 Inch	Construction	-	-	-	0.00%	-	-	
41	4 Inch	Construction	-	-	-	0.00%	-	-	
43		Subtotal	$ -	$ -	-	0.00%	-	-	
45	3 Inch	Fire Hydrant Meter (Irrigation)	$ -	$ -	-	0.00%	-	-	
46	4 Inch	Fire Hydrant Meter (Irrigation)	-	-	-	0.00%	-	-	
48		Subtotal	$ -	$ -	-	0.00%	-	-	
50	34 inch	Fire Sprinkler	$ -	$ -	-	0.00%	-	-	
51	1 Inch	Fire Sprinkler	-	-	-	0.00%	-	-	
52	1.5 Inch	Fire Sprinkler	-	-	-	0.00%	-	-	
54		Subtotal	$ -	$ -		0.00%	-	-	
56	Total Revenue Annualization		$ (250,897)	$ (608,991)	$ (309,482)	0.00%	1,643	(194,058)	

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
3	Subtotal Metered Revenues	$ 7,665,568	$ 11,021,746	$ 3,356,178	43.78%	100.00%	100.00%
4	Subtotal Revenue Annualization	(250,897)	(608,991)	(358,094.01)	142.73%	-3.27%	-5.53%
5	Total Metered Revenues	$ 7,414,671	$ 10,412,755	$ 2,998,084	40.43%		
7	Misc. Revenues	$ 82,289	$ 82,289	-	0.00%	1.07%	0.75%
8	Reconciling Amount to GL	8,050	923	(7,127)			
9	Total Water Revenues	$ 7,505,010	$ 10,495,967	$ 2,990,957	39.85%	0.00%	0.00%

Revenue Reconciliation

14	Revenue per bill count before revenue annualization	$ 7,665,568
15	Revenue per GL (metered water revenues)	7,673,618
16	Difference	$ (8,050)
17	Difference %	-0.10%
18	Tolerance %	0.50%
19	Tolerance Amount + or -	$ 38,368
21	Acceptable?	YES

Chaparral City Water Company
Test Year Ended December 31, 2006
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2006	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	3/4 Inch	Residential	8,368	8,450	$ 32.38	$ 43.63	11.26	34.77%
2	1 Inch	Residential	4,000	10,095	48.14	64.74	16.60	34.49%
3	1.5 Inch	Residential	21	29,821	120.55	162.15	41.60	34.51%
4	2 Inch	Residential	39	72,924	256.77	344.96	88.19	34.35%
5	3 Inch	Residential	3	70,226	322.97	433.41	110.44	34.19%
6		Subtotal	12,431					
7								
8	3/4 Inch	Commercial	115	12,528	$ 46.97	$ 63.22	16.25	34.59%
9	1 Inch	Commercial	114	17,907	67.83	91.24	23.41	34.52%
10	1.5 Inch	Commercial	66	47,736	165.69	222.92	57.23	34.54%
11	2 Inch	Commercial	71	68,389	245.34	329.58	84.24	34.33%
12	3 Inch	Commercial	5	34,550	233.06	312.39	79.33	34.04%
13	4 Inch	Commercial	4	186,146	696.09	936.41	240.32	34.52%
14		Subtotal	375					
15								
16	3/4 Inch	Industrial	1	5,375	$ 24.63	$ 33.20	8.57	34.82%
17	1 Inch	Industrial	1	-	$ 22.70	$ 30.50	7.80	34.36%
18	1.5 Inch	Industrial	0	8,000	$ 65.56	$ 88.14	22.58	34.44%
19		Subtotal	2					
20								
21	3/4 Inch	Irrigation	145	16,732	$ 39.70	$ 75.05	35.35	89.05%
22	1 Inch	Irrigation	170	41,781	$ 87.88	$ 172.22	84.34	95.98%
23	1.5 Inch	Irrigation	68	76,173	$ 164.23	$ 319.38	155.15	94.47%
24	2 Inch	Irrigation	52	119,346	$ 259.18	$ 502.42	243.24	93.85%
25	4 Inch	Irrigation	4	1,813,070	$ 3,055.39	$ 6,454.93	3,399.54	111.26%
26	6 Inch	Irrigation	3	5,451,042	$ 8,957.63	$ 19,099.93	10,142.31	113.23%
27		Subtotal	442					
28								
29	3/4 Inch	Construction	1	959	$ 15.10	$ 21.55	6.46	42.77%
30	1 Inch	Construction	3	11,803	$ 41.11	$ 70.54	29.42	71.57%
31	2 Inch	Construction	0	36,000	$ 129.16	$ 219.71	90.55	70.11%
32	3 Inch	Construction	4	180,682	$ 427.86	$ 808.07	380.21	88.86%
33	4 Inch	Construction	1	94,500	$ 374.42	$ 625.54	251.12	67.07%
34		Subtotal	8					
35								
36	3 Inch	Fire Hydrant Meter (Irrigation)	26	26,121	$ 211.82	$ 283.80	71.98	33.98%
37	4 Inch	Fire Hydrant Meter (Irrigation)	1	516,917	$ 1,529.63	$ 2,058.38	528.75	34.57%
38		Subtotal	26					
39								
40	34 inch	Fire Sprinkler	43	3	$ 10.01	$ 10.01	0.00	0.03%
41	1 Inch	Fire Sprinkler	2	63	$ 10.16	$ 10.21	0.05	0.54%
42	1.5 Inch	Fire Sprinkler	3	28	$ 10.07	$ 10.09	0.02	0.24%
43		Subtotal	48					
44								
45								
46		Total	13,333					

47 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Chaparral City Water Company
Test Year Ended December 31, 2006
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2006	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	3/4 Inch	Residential	8,368	5,500	$ 24.94	$ 33.62	8.68	34.82%
2	1 Inch	Residential	4,000	7,500	41.60	55.94	14.34	34.47%
3	1.5 Inch	Residential	21	21,500	99.58	133.93	34.35	34.49%
4	2 Inch	Residential	39	51,500	202.78	272.29	69.51	34.28%
5	3 Inch	Residential	3	83,000	355.16	476.74	121.58	34.23%
6		Subtotal	12,431					
7								
8	3/4 Inch	Commercial	115	4,501	$ 24.94	$ 33.57	8.62	34.58%
9	1 Inch	Commercial	114	5,500	36.56	49.16	12.60	34.45%
10	1.5 Inch	Commercial	66	13,500	79.42	106.79	27.37	34.46%
11	2 Inch	Commercial	71	21,500	127.18	170.53	43.35	34.08%
12	3 Inch	Commercial	5	12,500	177.50	237.60	60.10	33.86%
13	4 Inch	Commercial	4	79,500	427.34	574.66	147.32	34.47%
14		Subtotal	375					
15								
16	3/4 Inch	Industrial	1	3,500	$ 19.90	$ 26.84	6.94	34.87%
17	1 Inch	Industrial	1	-	$ 22.70	$ 30.50	7.80	34.36%
18	1.5 Inch	Industrial	0	-	$ 45.40	$ 61.00	15.60	34.36%
19		Subtotal	2					
20								
21	3/4 Inch	Irrigation	145	8,500	$ 26.86	$ 47.13	20.27	75.47%
22	1 Inch	Irrigation	170	15,500	$ 46.88	$ 83.08	36.20	77.21%
23	1.5 Inch	Irrigation	68	24,500	$ 83.62	$ 144.10	60.48	72.33%
24	2 Inch	Irrigation	52	63,000	$ 171.28	$ 311.30	140.02	81.75%
25	4 Inch	Irrigation	4	157,000	$ 471.92	$ 837.54	365.62	77.48%
26	6 Inch	Irrigation	3	1,312,000	$ 2,500.72	$ 5,060.30	2,559.58	102.35%
27		Subtotal	442					
28								
29	3/4 Inch	Construction	1	-	$ 13.60	$ 18.30	4.70	34.56%
30	1 Inch	Construction	3	11,500	$ 40.64	$ 69.51	28.87	71.03%
31	2 Inch	Construction	0	59,000	$ 165.04	$ 297.73	132.69	80.40%
32	3 Inch	Construction	4	19,500	$ 176.42	$ 261.34	84.92	48.14%
33	4 Inch	Construction	1	106,000	$ 392.36	$ 664.55	272.19	69.37%
34		Subtotal	8					
35								
36	3 Inch	Fire Hydrant Meter (Irrigation)	26	9,500	$ 169.94	$ 227.42	57.48	33.83%
37	4 Inch	Fire Hydrant Meter (Irrigation)	1	561,500	$ 1,641.98	$ 2,209.61	567.63	34.57%
38		Subtotal	26					
39								
40	34 inch	Fire Sprinkler	43	-	$ 10.00	$ 10.00	-	0.00%
41	1 Inch	Fire Sprinkler	2	-	$ 10.00	$ 10.00	-	0.00%
42	1.5 Inch	Fire Sprinkler	3	-	$ 10.00	$ 10.00	-	0.00%
43		Subtotal	48					
44								
45								
46		Total	13,333					

47 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Chaparral City Water Company
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Zones and Classes):				
2	3/4 Inch	$ 13.60	$ 18.30	$ 4.70	34.56%
3	1 Inch	22.70	30.50	7.80	34.36%
4	1 1/2 Inch	45.40	61.00	15.60	34.36%
5	2 Inch	73.00	97.60	24.60	33.70%
6	3 Inch	146.00	195.20	49.20	33.70%
7	4 Inch	227.00	305.00	78.00	34.36%
8	6 Inch	454.00	610.00	156.00	34.36%
9	8 Inch	730.00	1,128.50	398.50	54.59%
10	10 Inch	1,043.00	1,586.00	543.00	52.06%
11	12 Inch	1,980.00	2,806.00	826.00	41.72%
12					
13					
14	Fire Hydrants Basic Service	$ -	$ -	-	0.00%
15					
16	Fire Hydrants Used for Irrigation	$ 146.00	$ 196.50	50.50	34.59%
17					
18	Monthly Service Charge for Fire Sprinkler				
19	4 Inch or smaller	$ 10.00	$ 10.00	-	0.00%
20	6 Inch	10.00	10.00	-	0.00%
21	8 Inch	10.00	10.00	-	0.00%
22	10 Inch	10.00	10.00	-	0.00%
23	Larger than 10 Inch	10.00	10.00	-	0.00%
24					
25					
26	Gallons In Minimum (All Zones and Classes)	-	-		
27					
28			(Per 1,000 gallons)		
29	**Commodity Rates**		Present	Proposed	Percent
30	**(Residential, Commercial, Industrial)**	**Block**	**Rate**	**Rate**	**Change**	**Change**
31						
32	3/4 Inch Meter Residential	0 gallons to 3,000 gallons	$ 1.68	$ 2.281	$ 0.60	35.77%
33		3,001 gallons to 9,000 gallons	$ 2.52	$ 3.392	$ 0.87	34.60%
34		over 9,000 gallons	$ 3.03	$ 4.078	$ 1.05	34.59%

Diablo Village Water Company
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
Rebuttal Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons) Present Rate	Proposed Rate	Change	Percent Change
1						
2						
3						
4						
5	3/4 Inch Meter Commercial and Industrial	0 gallons to 9000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
6		over 9,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
7	1 Inch Meter	0 gallons to 24,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
8		over 24,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
9	1.5 Inch Meter	0 gallons to 60,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
10		over 60,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
11	2 Inch Meter	0 gallons to 100,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
12		over 100,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
13	3 Inch Meter	0 gallons to 225,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
14		over 225,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
15	4 Inch Meter	0 gallons to 350,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
16		over 350,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
17	6 Inch Meter	0 gallons to 725,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
18		over 725,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
19	8 Inch Meter	0 gallons to 1,125,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
20		over 1,125,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
21	10 Inch Meter	0 gallons to 1,500,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
22		over 1,500,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
23	12 Inch Meter	0 gallons to 2,250,000 gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
24		over 2,250,000 gallons	$ 3.03	$ 4.078	$ 1.048	34.59%
25						
26	**Irrigation/Bulk**	All gallons	$ 1.56	$ 3.392	$ 1.832	117.44%
27						
28	**Fire Hydrant Irrig./Construction**	All gallons	$ 1.56	$ 3.392	$ 1.832	117.44%
29						
30	**Standpipe (Fire Hydrants)**	All gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
31						
32	**Fire Sprinklers**	All gallons	$ 2.52	$ 3.392	$ 0.872	34.60%
33						

Chaparral City Water Company
Changes in Representative Rate Schedules
Test Year Ended December 31, 2006

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Establishment (After Hours)	$ 35.00	$ 35.00
3	Reconnection (Deliquent)	$ 35.00	$ 35.00
4	Reconnection (Deliquent and After Hours)	$ 50.00	$ 50.00
5	Meter Test	$ 35.00	$ 35.00
6	Deposit Requirement (Residential)	(a)	(a)
7	Deposit Requirement (None Residential Meter)	(a)	(a)
8	Hydrant Meter Deposit	$ 50.00	$ 50.00
9	Deposit Interest	(b)	(b)
10	Re-Establishment (With-in 12 Months)	(c)	(c)
11	Re-Establishment (After Hours)	(c)	(c)
12	NSF Check	$ 25.00	$ 25.00
13	Deferred Payment, Per Month	1.50%	1.50%
14	Meter Re-Read	$ 25.00	$ 25.00
15	Charge of Moving Customer Meter -		
16	Customer Requested per Rule R14-2-405B	Cost	Cost
17	After hours service charge, per Rule R14-2-403D	Refer to	Refer to
18		Above	Above
19		Charges	Charges
20	Late Charge per month	1.5%	1.5%
21	Off-site Facilities Hook-up Fee (See H-3, page 5)	(d)	(d)
22	CAP Hook-up Fee (See H-3, page 5)	(e)	(e)
23			

24 (a) Residential - two times the average bill. Non-residential - two and one-half times the average bill.
25 (b) Interest per Rule R14-2-403(B).
26 (c) Minimum charge times number of full months off the system. per Rule R14-2-403(D).
27 (d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-
28 division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide
29 water production, delivery, storage, and presssure among all new service connections.
30 (e) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-
31 division. Purpose is to recover the costs of additonal 1,931 a.f. of CAP allocation. Fee will be recomputed
32 annually to take into account carrying costs of unrecovered balance and annual payment.
33
34 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
35 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
36 TAX. PER COMMISSION RULE 14-2-409D(5).
37 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,
38 AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.
39
40 All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes.
41 including all gross-up taxes, if applicable.

Chaparral City Water Company
Test Year Ended December 31, 2006
Meter and Service Line Charges

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

Meter and Service Line Charges

Line No.		Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
9	5/8 x 3/4 Inch	$ 385.00	$ 135.00	$ 520.00	$ 385.00	$ 135.00	$ 520.00
10	3/4 Inch	385.00	215.00	600.00	385.00	215.00	600.00
11	1 Inch	435.00	255.00	690.00	435.00	255.00	690.00
12	1 1/2 Inch	470.00	465.00	935.00	470.00	465.00	935.00
13	2 Inch / Turbine	630.00	965.00	1,595.00	630.00	965.00	1,595.00
14	2 Inch / Compound	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
15	3 Inch / Turbine	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
16	3 Inch / Compound	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
17	4 Inch / Turbine	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
18	4 Inch / Compound	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
19	6 Inch / Turbine	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
20	6 Inch / Compound	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
21	8 Inch & Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

N/T = No Tariff

Chaparral City Water Company
Test Year Ended December 31, 2006
Hook-Up Fees

Exhibit
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Off-site Facilities Hook-up Fee

Line No.		Present Charge	Proposed Charge
6	5/8 x 3/4 Inch	$ 1,000	$ 1,000
7	3/4 Inch	1,500	1,500
8	1 Inch	2,500	2,500
9	1 1/2 Inch	5,000	5,000
10	2 Inch	8,000	8,000
11	3 Inch	16,000	16,000
12	4 Inch	25,000	25,000
13	6 Inch or larger	50,000	50,000

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(COST OF CAPITAL)

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Attorneys for Chaparral City Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-02113A-07-0551

REBUTTAL TESTIMONY OF THOMAS J. BOURASSA (COST OF CAPITAL)

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I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. On behalf of the applicant, Chaparral City Water Company ("CCWC" or "the Company").

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT AND REBUTTAL TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS CASE?

A. Yes. My background and qualifications are discussed in my direct testimony on those aspects of the case.

Q. DID YOU ALSO PREPARE DIRECT TESTIMONY ON THE COST OF CAPITAL ON BEHALF OF CCWC IN THIS CASE?

A. Yes, I also provided direct testimony on the cost of capital, including the cost of equity, in this case.

II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY.

A. Summary of Company's Rebuttal Recommendation.

Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR REBUTTAL TESTIMONY?

A. In this portion of my rebuttal testimony I will provide updates of my cost of capital analysis and recommended rate of return using recent financial data. I also will respond as appropriate to the direct testimonies of Mr. Pedro Chaves and Mr. Gordon Fox on behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") and the direct testimony of Mr. William A. Rigsby

on behalf of the Residential Utility Consumer Office ("RUCO").

Q. PLEASE SUMMARIZE YOUR UPDATED COST OF CAPITAL ANALYSIS.

A. Since the Company's direct filing, the cost of equity has increased substantially, as indicated by the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). The table below summarizes the results of my updated analysis using those models:

	Range	Midpoint
DCF Constant Growth (earnings growth)	11.1% - 14.4%	12.7%
DCF Constant Growth (sustainable growth)	9.0% - 11.4%	10.2%
Two-Stage Growth Model	10.6% - 12.7%	10.9%
DCF Average Results	**10.2% - 12.8%**	**11.5%**
CAPM Historical Market Risk Premium		10.7%
CAPM Current Market Risk Premium		18.3%
Average CAPM Results	**10.7%-18.3%**	**14.5%**
Average Overall Results	**10.5%-15.6%**	**13.0%**

The schedules containing my updated cost of capital analysis are included with my rebuttal schedules, attached to my other rebuttal testimony. Attached to this testimony are Exhibits 1 through 6, which are discussed below.

I also prepared rebuttal testimony that addresses the Company's rebuttal rate base, its income statement (revenue and operating expenses), its required increase in revenue, and its rate design and proposed rates and charges for service. For the convenience of the Commission and the parties, that testimony has been filed separately in this case.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED RATE OF RETURN ON RATE BASE AT THIS STAGE OF THE PROCEEDINGS.

A. The Company's recommended capital structure consists of 23.42 percent debt and 76.58 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated cost of capital analysis, I am recommending a cost of equity of 11.5 percent for the Company. The Company's recommended cost of debt is 5.1 percent based on a cost of short-term debt of 3.98 percent and a cost of long-term debt of 5.33 percent.

Based on my 11.5 percent recommended cost of equity, the Company's weighted cost of capital ("WACC") is 10.0 percent, as shown on Rebuttal Schedule D-1. I recommend that the WACC be used as the rate of return and applied to the Company's fair value rate base ("FVRB") to compute the Company's required operating income, consistent with the Company's position in its prior rate case, Docket No. W-02113A-04-0616.

Q. IS THE COST OF SHORT-TERM DEBT LOWER THAN IN THE COMPANY'S DIRECT FILING?

A. Yes. The short-term borrowing rate for CCWC's parent, American States Water, is based upon the London InterTAN Borrowing Rate ("LIBOR"). Because the short-term rate is adjusted based on the LIBOR, I am recommending that the current 12-month LIBOR rate, 3.98 percent, be used as the cost of short-term debt.

Q. IS YOUR REBUTTAL COST OF EQUITY RECOMMENDATION HIGHER THAN IN YOUR DIRECT TESTIMONY?

A. Yes. In my direct testimony relating to the cost of capital, which was filed more than one year ago, I recommended a cost of equity of 10.5 percent based on financial information from July 2007. My current recommendation, 11.5 percent,

is based on current financial information. The methodologies that I have used are same. However, key inputs into the DCF and CAPM models have changed over the past year. For example, the average beta of the public traded water utilities in my sample group (which is also Staff's sample group) has increased substantially, indicating that water utilities have become a much riskier investment. This, in turn, indicates that the cost of equity has increased.

Q. WHY ARE YOU RECOMMENDING A COST OF EQUITY OF ONLY 11.5 PERCENT, WHEN YOUR FINANCIAL MODELS INDICATE THAT A HIGHER EQUITY RETURN IS APPROPRIATE?

A. The midpoint of the range of cost of equity estimates is 13.0 percent, as shown above. Given CCWC's small size, the regulatory methods and policies used in this jurisdiction (which increase investment risk), and other firm-specific factors, it is my opinion that at the present time, a cost of equity of 13.0 percent is warranted and supported by the underlying record. Even so, I am recommending only 11.5 percent to reflect CCWC's desire to keep the revenue increase at or below the increase requested in its direct filing and to help minimize disputes between the parties.

B. <u>Summary of the Recommendations of Staff and RUCO.</u>

Q. PLEASE SUMMARIZE THE COST OF DEBT AND EQUITY RECOMMENDED BY STAFF AND RUCO, AND THEIR RESPECTIVE RECOMMENDATIONS FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff determined a cost of equity of 10.0 percent based on the average cost of equity produced by its DCF and CAPM models (11.8 percent) and a 180 basis point downward adjustment for CCWC's lower financial risk as compared to the publicly traded water utilities in Staff's sample group. *See* Chaves Direct

Testimony ("DT") at 35. Staff did not consider any of CCWC's firm-specific risks other than financial risk. Staff's recommended cost of debt is 5.0 percent, based on a short-term debt rate of 3.8 percent and a long-term debt rate of 5.4 percent. *Id.* Based on a capital structure of 24.4 percent debt and 76.6 percent equity, Staff determined the WACC for CCWC to be 8.8 percent. *Id.* Then, Staff adjusted the WACC downward by subtracting 1.2 percent as an adjustment for inflation. Thus, Staff's adjusted WACC is 7.6 percent. *See* Chaves DT at 36.

RUCO determined its recommended cost of equity, 6.83 percent, based on the average cost of equity of its DCF and CAPM results (8.83 percent) and a downward adjustment of 200 basis points for inflation. *See* Rigsby DT at 8. RUCO's recommended cost of debt is 4.96 percent, based on a short-term debt rate of 3.13 percent and a long-term debt rate of 5.34 percent. *Id.* at 58-59. Based on a capital structure of 23.47 percent debt and 76.56 percent equity, RUCO computed a WACC of 6.38 percent, which is RUCO's recommended rate of return on FVRB. *Id.* at 62. RUCO did not consider any firm-specific risks.

Q. WHAT IS THE UNDERLYING BASIS FOR THE APPROACH EMPLOYED BY STAFF AND RUCO IN DETERMINING CCWC'S RATE OF RETURN?

A. The approach used by Staff and RUCO in determining the rate of return to be applied to CCWC's FVRB is based on the methodology adopted in CCWC's remand proceeding in Decision 70441 (docketed July 28, 2008). In Decision 70441, the Commission determined an adjusted WACC based on the cost of common equity adopted in Decision No. 68176 (Sept. 30, 2005) reduced by an inflation factor. The adjusted WACC was then applied to CCWC's FVRB to derive its authorized operating income. *See* Decision No. 70441 at 37.

RUCO's approach in this case is identical to the approach adopted by the

Commission in Decision No. 70441. Staff's approach is a modified version. The modification is two-fold. First, Staff recommends that the inflation adjustment also apply to the cost of debt because inflation is a component cost of debt. *See* Fox DT at 5. Second, Staff recommends that the inflation factor recognize that the FVRB reflects a 50/50 weighting of original cost rate base ("OCRB") and reconstruction cost rate base ('RCRB"). Because the Company's OCRB (which is one-half of the FVRB) is based solely on historic or "book" costs and is unaffected by changes in price levels and other economic factors, Staff recommends that the inflation factor be reduced by one-half. *Id.* at 8-9.

Q. WHY HASN'T THE COMPANY ADOPTED AN APPROACH THAT IS IDENTICAL TO, OR A REFINEMENT OF THE APPROACH ADOPTED IN DECISION 70441, LIKE STAFF AND RUCO?

A. Decision No. 70441 has been appealed by the Company to Arizona Court of Appeals. Until this appeal has been decided, it is uncertain whether the approach adopted in Decision No. 70441 correctly uses the fair value of the Company's utility plant and property in setting rates. Moreover, if the Company accepted Decision No. 70441 as settled precedent in this case, the Company arguably would be waiving its right to assert that the approach adopted in Decision No. 70441 was erroneous, even if the Court of Appeals again rules against the Commission.

Q. IN YOUR OPINION, WHAT IS WRONG WITH THE APPROACH ADOPTED BY THE COMMISSION IN DECISION 70441?

A. The Company's Application for Rehearing, filed in Docket No. W-02113A-04-0616 on July 31, 2008, provides a detailed discussion of the problems inherent in Decision No. 70441. Because that application is currently on file with the Commission, and because certain of the Company's arguments are legal in nature, I will refer you to that document for a comprehensive discussion of the Company's

position regarding Decision No.70441.

As general background here, and in brief, the Company believes that despite the Arizona Court of Appeals' instruction to use the fair value of the Company's property in setting rates, and despite the fact that the Company's FVRB was $3.3 million larger than its OCRB in its last rate case, the Commission on remand simply set the Company's operating income at a level that was equivalent to the result produced by multiplying the WACC by OCRB. The increase in operating income was only $7,441, which is 0.57 percent greater than the operating income authorized in Decision No. 68176. The Company believes that the Commission should have applied the 7.6 percent rate of return that was used to determine the Company's operating income in Decision No. 68176 to the FVRB.

The Commission's primary justification for its approach was that applying the WACC to the Company's FVRB "would over-compensate the Company for inflation." Decision No. 70441 at 30-32, 41. The Company believes that this determination was erroneous for several reasons, including the fact that half of the FVRB is based on the original cost of the Company's plant which, by definition, contains no inflation, and the Commission's incorrect belief that the Company's fair value rate base is simply "inflated" by some general measure of inflation instead of being a conservative estimate of current value. The Company also believes that Decision No. 70441 violated the prohibition against piecemeal ratemaking because it considered the impact of inflation in isolation, ignoring inflation's impact on the Company's overall cost of service. The Commission considered only the impact of inflation on the Company's FVRB and its cost of equity, and ignored the evidence presented by the Company regarding the impact of inflation on the Company's earnings.

III. FAIR VALUE RATEMAKING.

A. Brief Overview of the "Fair Value" Standard.

Q. GENERALLY SPEAKING, HOW DOES THE "FAIR VALUE" STANDARD OPERATE?

A. Under the fair value standard, the rate of return is applied to the current market value of a utility's plant and property that is devoted to public service. The United States Supreme Court has explained that this approach is intended to mimic the competitive market.

> [The] fair value standard mimics the operation of the competitive market. To the extent utilities' investment in plant are good ones (because their benefits exceed their costs) they are rewarded with an opportunity to earn an "above-cost" return, that is, a fair return on the current "market value" of the plant. To the extent utilities' investments turn out to be bad ones (such as plants that are canceled and so never used and useful to the public), the utilities suffer because the investments have no fair value and so justify no return.

Duquesne Light Co. v. Barasch, 488 U.S. 299, 308-09 (1989).

In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), the U.S. Supreme Court ruled that other methods of setting utilities' rates also may be used, and adopted what is sometimes called the "end result" test to determine whether utilities' rates pass constitutional muster. However, the "end result" test has been rejected by Arizona courts due to the Arizona Constitution's requirement that fair value be used to set rates. For example, in *Arizona Corporation Commission v. Arizona Water Co.*, 85 Ariz. 198, 203, 335 P.2d 412, 415 (1959), the Arizona Supreme Court stated:

> This court has held that under our constitution the Corporation Commission must find the fair value of the properties devoted to the public use, and that in determining the fair value the Commission cannot be guided by the prudent investment theory nor can it use common equity as the rate base standard. ... The amount of capital invested is immaterial. Under the

> law of fair value a utility is not entitled to a fair return on its investment; it is entitled to a fair return on the fair value of its properties devoted to the public use, no more and no less.

Q. PLEASE DISCUSS WHAT IS MEANT BY A FAIR RATE OF RETURN.

A. A fair rate of return is achieved when a utility is permitted to set rates and charges for service at levels where the expected return provides common stock investors a reasonable opportunity to earn the cost of common equity. Since operating expenses and interest on debt take precedence over payments to common stockholders, the common equity shareholders of the company bear the greatest risk of not receiving expected returns. The U.S. Supreme Court recognized this requirement many years ago. In describing the appropriate return on a utility's FVRB, the U.S. Supreme Court, in *Bluefield Waterworks,* stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economic management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm'n of West Va., 262 U.S. 679, 692-93 (1923). In the *Hope* decision, the Supreme Court restated this requirement:

> [T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Hope Natural Gas, 320 U.S. at 603.

Historically, a utility's rates were fixed on the basis of providing a fair return on its FVRB, as shown by the discussion in U.S. Supreme Court decisions such as *Bluefield Waterworks*, 262 U.S. at 690-92, and *McCardle v. Indianapolis Water Co.*, 272 U.S. 400, 408-10 (1926). Arizona courts have continued to state that the Commission must use a FVRB in setting rates in Arizona. Recently, the Arizona Supreme Court stated that in a monopolistic setting, "fair value has been the factor by which a reasonable rate of return was multiplied to yield, with the addition of operating expenses, the total revenue a corporation could earn." *US West Communications, Inc. v. Arizona Corporation Commission*, 201 Ariz. 242, 245, 34 P.3d at 351, 354 (2001). That statement is consistent with the Arizona Supreme Court's statement in *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151, 294 P.2d 378, 382 (1956), some 45 years earlier, that the "reasonableness and justness of the rates must be related to [the] finding of fair value."

In short, the principles stated by the U.S. Supreme Court on what constitutes a fair rate of return are consistent with the holdings of the Arizona courts. Because of the constitutional requirements in Article 15 of the Arizona Constitution, however, the Commission should establish rates that provide a fair rate of return on the fair value of a utility's property at the time of inquiry, i.e., its FVRB.

Q. STAFF, HOWEVER, ARGUES THAT INVESTORS DO NOT EXPECT A HIGHER RETURN IF FAIR VALUE IS USED RATHER THAN ORIGINAL COST (FOX DT AT 9). DO YOU AGREE?

A. No. Mr. Fox's argument is erroneous for several reasons. First, I would assume that investors expect the Commission to follow Arizona law, just as they would expect any other public utility commission to follow the particular laws applicable in its jurisdiction. Second, the use of a FVRB may result in a higher return (in dollars) or a lower return (in dollars) when compared to the use of a OCRB,

depending on the particular circumstances of the utility. A variety of factors (e.g., obsolesce) may cause the FVRB to be lower than OCRB. Finally, in a data request, the Company asked Staff to provide the basis for Mr. Fox' view of what investor expect, and Staff's response was non-responsive, indicating that the Staff has no support for this contention.

Q. MR. FOX ALSO CONTENDS ON PAGE 9 OF HIS TESTIMONY THAT THE MARKET DETERMINES THE RETURN REQUIRED BY INVESTORS, AND THAT WATER UTILITIES CANNOT EXPECT TO EARN A RETURN IN EXCESS OF THE MARKET-DETERMINED RATE. IS THAT CORRECT?

A. Mr. Fox and I agree on this point. As I will discuss in a moment, in this case the return (cost of equity) is being estimated by using two market-based finance models, the DCF model and the CAPM. Therefore, cost of equity estimates can be applied to FVRB, as required by the Arizona Constitution.

B. <u>The Financial Models Used by the Commission to Estimate the Cost of Equity Are Market-Based Models, and Do Not Depend on the Type of Rate Base Used.</u>

Q. YOU HAVE PROVIDED EQUITY COST ESTIMATES FOR CCWC. DID THOSE ESTIMATES DEPEND ON THE TYPE OF RATE BASE USED?

A. No. My cost of equity estimates, as well as those provided by Staff and RUCO, are unrelated to the type of rate base used, and actually are better suited for use in connection with a market-based rate base.

Q. EXPLAIN WHY THAT IS THE CASE.

A. Like Staff and RUCO, I used the DCF model and the CAPM to derive my estimate of the current cost of equity, using financial information for a sample group of publicly traded utilities. Thus, the DCF and CAPM are market-based models that are implemented with market data. It is not necessary to determine the rate bases

of the sample utilities to implement these models. Consequently, the estimates produced by these models are independent of the rate base to which they are applied.

Equity cost estimates are determined from market data and provide an estimate of the equity return an investor requires on dollars invested in shares of common stock. Moreover, when the Commission determines the cost of equity in a rate case, it normally relies solely on cost of equity estimates derived from market-based methods such as the DCF model and the CAPM. The Commission does not use comparable earnings or other approaches that rely on accounting-based equity returns, which would be more appropriate for use with an accounting-based rate base, like an OCRB. The Commission's policy of relying on market-based finance models to estimate the cost of equity has been stated in a number of cases. For example, in a recent case filed by Arizona-American Water, the ACC explained:

> In regard to Arizona-American's arguments that Staff's cost of equity estimates are inconsistent with recent authorized returns on common equity, realized returns on common equity, *Value Line's* forecasted returns on common equity, and of forecasted Treasuries, we agree with Staff and RUCO that while the comparable earnings method was once widely used to determine equity cost, it has been replaced by market based corporate finance models, including the DCF and the CAPM. We further agree that because the DCF method and the CAPM estimate the cost of equity by quantifying the anticipated dividends and capital gains investors expect to earn by purchasing shares of stock with comparable risk, their results meet the *Hope* comparable risk standard.

Arizona-American Water Co., Decision No. 67093, at 29 (June 30, 2004). Similarly, in a recent case filed by Arizona Water Company, the ACC stated:

> In estimating its cost of equity, Arizona Water relied on a risk premium analysis methodology used by the CPUC staff, which uses comparisons to actual or authorized returns on equity. This sort of "comparable earnings" analysis has long been discredited for several reasons, ... Market-based

> methods like the DCF model and the CAPM provide more reliable estimates of equity cost, because it is capital markets, not regulatory commissions, that determine the cost of equity. Use of the risk premium analysis urged by the Company would circumvent the market forces that regulation attempts, as much as possible, to replicate. ... The risk premium analysis methodology erroneously assumes that accounting-based "actual" ROEs are equal to the cost of equity.

Arizona Water Co., Decision No. 68302, at 37-38 (Nov. 14, 2005). The same approach was used by the Commission in determining Chaparral City's equity return in this case. Decision No. 68176 at 17-26.

Q. DOES THAT MEAN THAT COST OF EQUITY ESTIMATES BASED ON THE DCF AND CAPM MODELS CANNOT BE USED WITH AN OCRB?

A. No, not at all. Most jurisdictions currently use OCRB as the rate base, and many apply cost of equity estimates based on the DCF and CAPM models to an OCRB. My point is that there is certainly no reason why the results of these models cannot be applied to a market-based rate base. As one expert on regulatory finance has explained:

> In a competitive market, investment decisions are taken on the basis of market prices, market values, and market cost of capital. If regulation's role was to duplicate the competitive result perfectly, then the market cost of capital would be applied to the current market value of rate base assets employed by utilities to provide service.

Roger A. Morin, *New Regulatory Finance* 395 (Public Utility Reports, Inc. 2006). Because the fair value standard is intended to mimic the competitive market, it makes sense to apply the results produced by models that are market-based to a rate base that is also market-based.

This point becomes obvious when considering the models used by this Commission in estimating the cost of equity for rate-making purposes. The DCF model has two basic components: dividend yield, which is the expected annual

dividend divided by the price of the stock, and dividend growth, which is the expected rate of future dividend growth and is largely a function of the firm's future earnings. Dividend yield is calculated by dividing the expected dividend by the current market price of the stock, not by the stock's book value. When a stock is trading above book value, the use of the current market price reduces the resulting cost of equity, and vice versa. In either case, the cost of equity is market-based, and if applied to the current value of a utility's plant (i.e., a FVRB), the utility is properly compensated based on current market conditions, as Dr. Morin states in his text.

The CAPM focuses on the relative riskiness of an investment in a particular stock, as estimated by its beta, which is calculated by analyzing its volatility relative to the market as a whole. Again, this approach is market-based, and produces an estimate of the cost of equity that is tied to the market price of the stock – not the stock's book value. The higher the beta, the riskier the stock, which means that the investor requires a higher return. As I stated earlier, the betas of the sample group of water utilities has increased substantially since CCWC's last rate case, indicating that CCWC's cost of equity has increased substantially.[1] Again, applying a cost of equity that is based on the relative riskiness of a group of stocks trading on a national exchange to the current value of a utility's plant properly compensates the utility based on current market conditions.

IV. COMMENTS ON THE GENERAL CONCEPT OF AN INFLATION ADJUSTMENT TO THE RATE OF RETURN APPLIED TO THE FAIR VALUE RATE BASE.

Q. BASED ON ARIZONA'S REQUIREMENT TO FIND AND USE FAIR

[1] In CCWC's last rate case, the average beta of Staff's sample group was 0.68. Surrebuttal Testimony of Alejandro Ramirez, Schedule AXR-8 May 5, 2005). The average beta of Staff's sample group in the current case is 1.01 – an increase of 0.33 – an increase of nearly 50 percent. Chaves DT, Schedule PMC-3.

VALUE IN ESTABLISHING RATES AND THE METHODOLOGIES USED TO ESTIMATE EQUITY RETURNS BY THIS COMMISSION, DO YOU AGREE WITH THE CONCEPT OF AN INFLATION ADJUSTMENT TO THE EQUITY RETURN OR TO THE RATE OF RETURN APPLIED TO THE FAIR VALUE RATE BASE?

A. No. Put simply, the level of earnings provided to a utility through the rate of return must support the current value of a utility's investment or a confiscation of its property will occur. It does not matter whether the rate of return includes an embedded inflation expectation or not. If investors require a particular rate of return as compensation for the risk associated with an investment in the equity of a utility, then anything less than that return will result in a decrease in the utility's value.

Let me explain this point in more detail. The cost of capital, or the investor's required return, is the compensation required by investors for postponing consumption and exposing capital to risk. That is, when investors supply funds to a utility, they are not only postponing consumption by giving up the alternative of utilizing their funds in some other way, but they also are exposing their funds to risk. If there are differences in the risks of investments, competition among firms for capital will bring different prices. If earnings on an investment of capital meet the investor's required return (compensation), the price they are willing to pay for the investment (e.g., for shares of common stock) will not change. If earnings on an investment are less than that required to meet the investor's required return, then the price the investor is willing to pay for the stock will decrease. The reverse is also true.

As I stated earlier, the DCF and CAPM are market-based models used to estimate the investor's required rate of return on the current value of common

equity capital. Investors are willing to pay, for example, $18.00 for a share of Aqua America's common stock (the approximate current price) because they anticipate that Aqua America's current and future dividends will produce a return that adequately compensates them for risking their funds. However, if regulation causes a reduction in earnings, inhibiting Aqua America's ability to pay dividends, the market price of its stock will fall because investors will be unwilling to pay $18.00 per share in order to receive a reduced return. Eventually, an equilibrium price will be reached, reflecting the reduction in earnings (and resulting reduction in dividends) caused by regulation, that will be below $18.00. A stockholder who purchases shares of Aqua American for an amount greater than the equilibrium price would suffer a loss as a result.

The same is true with respect to the value of a utility's assets. If the utility invests funds in plant in anticipation of earning a reasonable return on that plant, and regulation lowers the return below the cost of equity for the comparable companies, then the value of the plant that has financed with that investment is reduced. In that case, a portion of the plant's value (and the investment supporting it) is effectively confiscated, just as a reduction in the allowed return for Aqua America will cause the value of its stockholders' investment to be lost when the price of its stock falls.

Q. IF THE RATE OF RETURN AND THE VALUE OF AN INVESTMENT ARE INTERRELATED, THEN ISN'T THERE A PROBLEM OF CIRCULARITY WHEN SETTING THE RATE OF RETURN?

A. No, not under Arizona's regulatory regime. The methodology for estimating the current value of the utility's investment (its FVRB) and the estimation of the investor's required rate of return are independent of each other in Arizona. A utility's rate base is determined using an asset-based approach rather than an

income approach or a market-based approach.[2] The rate of return (WACC) is based on the actual, embedded cost of debt and the cost of equity, estimated using two market-based finance models with inputs based on a proxy of publicly traded utilities. These models do not consider the rate bases of the sample publicly traded water utilities. Thus, rate base and rate of return are entirely independent, and no circularity problem can exist.

Q. PLEASE DEFINE ORIGINAL COST RATE BASE, RECONSTRUCTION COST AND FAIR VALUE RATE BASE.

A. An OCRB is the depreciated value of the historic cost incurred by a utility for constructing the assets used to provide the utility services being regulated. In Arizona court decisions, original cost has also been called "prudent investment." Reconstruction cost new less depreciation ("RCND") is the cost of constructing the same plant based on current construction costs, less depreciation. Generally, account-specific cost indices are multiplied by the original cost of the assets in those accounts to determine the RCND. The methodology used in this case was described in my direct testimony on pages 7 to 9. All of the parties at this stage of the proceeding recommend RCND rate bases of similar magnitudes. All the parties have accepted the Company's RCN study and the RCND values, with the exception of some differences based on proposed rate base adjustments. The recommendations of each of the parties are set forth in my rebuttal rate base and income statement testimony on page 3.

The FVRB is the rate base that the Arizona Constitution requires the ACC to use in fixing rates and charges for the utility services being regulated. The Arizona courts have stated that "[f]air value is measured by the value of a utility's

[2] For a discussion of the different valuation approaches, please see the Rebuttal Testimony of Harold Walker III in the CCWC Remand Proceeding (Docket No. W-02113A-04-0616).

property at the time of inquiry." *Chaparral City Water Co. v. ACC*, No. 1 CA-CC 05-0002 (Feb. 13, 2007) ("*Chaparral City Decision*"), at 7. That value is not the value of the rate base a year ago or the expected value of the rate base at some time in the future. In this case, the utility's FVRB is the value of the rate base at the end of the test period, 2006, not a period prior to 2006 or some expected period in the future.

The ACC's long-standing practice has been to average the utility's OCRB and its RCND rate base, and use the result as the FVRB. That is a very conservative approach and is the approach used in the instant case. None of the parties at this stage of the proceeding disputes the method of computing the FVRB. However, by applying a rate of return that is arbitrarily reduced below the return anticipated by investors (as determined by market-based finance models), the Commission is effectively reducing the FVRB. This methodology is no different than Staff's use of "zero cost" capital in CCWC's remand proceeding, under which CCWC would earn no return on a portion of its FVRB. This is not proper rate-making under Arizona law, which requires that fair value be found and used to set rates, and ultimately results in confiscation of a portion of the rate base..

V. THE INFLATION ADJUSTMENTS TO THE RATE OF RETURN PROPOSED BY STAFF AND RUCO.

A. Problems with RUCO's Inflation Adjustment.

Q. PLEASE COMMENT ON THE INFLATION ADJUSTMENT TO THE COST OF EQUITY PROPOSED BY RUCO.

A. RUCO's downward adjustment of 200 basis points to account for inflation is overstated for two reasons. First, since the FVRB is a 50/50 weighting of OCRB and RCRB and the OCRB, by definition, does not contain inflation (it is the *original* cost to build the plant), RUCO's inflation adjustment should be no more

than 100 basis points, i.e., one-half of its recommended adjustment.

Second, RUCO's inflation adjustment is based on historical information and is not a good proxy for future inflation that is contained in investors' expected equity returns. As Staff argued in CCWC's prior rate case, "analysts who forecast future rates do not have any more information about the future than what is already reflected in the current rate" and "[t]he direction of interest rates ... cannot be predicted any better than by the flip of coin." Surrebuttal Testimony of Alejandro Ramirez, Chaparral City Water, Docket No. W-02113A-04-0616, at 12, 13. In Decision No. 68176, at page 24, the Commission adopted Staff's argument. In this case, Mr. Chaves has again testified that interest rates cannot be accurately forecasted, and therefore the best information about the future is reflected in *current* Treasury yield. Chaves DT at 43. Obviously the same rationale applies to estimating future inflation through a comparison of Treasury yields.

Moreover, the use of historical information assumes erroneously that the actual inflation experienced by investors matched the inflation expectation embedded in the cost of equity when rates were last set. In fact, there is no evidence that such matching occurred, especially given that CCWC has been unable to actually earn its authorized return.

A better measure of expected inflation is the difference between the current spot yields of intermediate-term Treasuries and their corresponding inflation indexed intermediate-term Treasuries. This is the approach Staff has used. Chaves DT at 36. I will address the appropriate proxy for investor-expected inflation in more detail later in my testimony. For now, based on my analysis, I believe the appropriate inflation adjustment is, at present, an upward adjustment of 41 basis points.

Q. WHAT WOULD BE RUCO'S COST OF EQUITY, FAIR VALUE RATE OF

RETURN AND REQUIRED OPERATING INCOME IF AN UPWARD INFLATION ADJUSTMENT FACTOR OF 41 BASIS POINTS WERE USED BY RUCO?

A. RUCO's cost of equity would increase by 241 basis points to 9.24 percent, the WACC would increase by 137 basis points to 8.20 percent, and the required operating income would increase by $500,989 to $2,255,254 from $1,753,848.

B. <u>Problems with Staff's Inflation Adjustment.</u>

Q. PLEASE COMMENT ON THE INFLATION ADJUSTMENT TO THE RATE OF RETURN PROPOSED BY STAFF?

A. In contrast to RUCO, Staff's proposed inflation adjustment of 1.2 percent would apply to *both* the debt and equity portions of CCWC's capital structure. While I disagree that any inflation adjustment is appropriate to either the cost of equity or the cost of debt, it is especially inappropriate to adjust the cost of debt for future inflation because debt is an embedded cost that isn't affected by inflation once the debt has been issued. In other words, debt has a fixed cost, and the cost does not increase or decrease in response to future price or cost increases in the economy.

A graphic illustration of this point can be found in Mr. Fox's direct testimony. On page 7, Mr. Fox has provided a chart that shows the average of the yields on 5- and 10-year Treasuries and the Consumer Price Index ("CPI") for the years 1962 through 2007. Referring to that chart, assume that in 1972, a utility issued bonds totaling $1 million, with an annual interest rate of 8 percent and payable 30 years from the date of issuance. During the 30-year period from 1972 to 2002, the utility's annual debt service – its cost of debt – would be $80,000. This would be the case in 1980, when the CPI was nearly 14 percent, in 1986, when the CPI was just over 2 percent, and in 2001, when the CPI was just under 4 percent. Regardless of the current CPI (or any other estimate of inflation) in any

year shown on Mr. Fox's chart, the utility's cost of debt would remain fixed at 8 percent ($80,000 per year).

Consequently, it would be inappropriate to adjust the cost of debt in setting rates, since the cost of debt is unaffected by inflation. In fact, referring again to Mr. Fox's chart, what would happen if the utility had filed a rate case in 1976 when the CPI was nearly 14 percent, but the annual cost was only 8 percent? Under Staff's approach, the utility's cost of debt would be reduced by 7.00 percent (one-half of 14 percent), resulting in a cost of debt of only 1.00 percent, notwithstanding the fact that the utility would remain legally obligated to pay interest to its bond holders at the rate of 8.00 percent.

This leads to another, significant problem with Staff's adjustment: debt represents a contract under which the borrower is legally obligated to pay interest (the cost of debt). If the borrower fails to pay interest when it becomes due, it defaults on that contract, and faces legal action or, potentially, insolvency. Thus, debt is akin to an operating expense, in contrast to common equity, with respect to which there is no fixed dividend obligation. If the debt cost is adjusted for inflation, the Company would under-recover its cost of debt. The shortfall would be made up by shifting a portion of the equity return to pay the cost of debt. For this reason, there is a substantial difference between the cost of equity, which is forward-looking and is based on investors' expected, future return, and the cost of debt, which is fixed and must be paid, regardless of actual earnings.

Finally, I believe that Staff's inflation adjustment factor is overstated. Again, I will address the appropriate proxy for investor's expectation of inflation in more detail later in my testimony. For now, based on my analysis, I believe the inflation adjustment factor should be an upward adjustment of 41 basis points.

Q. WHAT WOULD BE STAFF'S COST OF EQUITY, FAIR VALUE RATE OF

RETURN AND REQUIRED OPERATING INCOME IF AN UPWARD INFLATION ADJUSTMENT FACTOR OF 41 BASIS POINTS WERE USED BY STAFF?

A. Staff's cost of equity would increase by 161 basis points to 10.41 percent, Staff's cost of debt would increase by 161 basis points to 5.41 percent, the WACC would increase by 180 basis points to 9.41 percent from 7.6 percent, and Staff's required operating income would increase by $496,195 to $2,551,936 from $2,055,831.

Q. IF THE COMMISSION WERE TO DECIDE IT IS APPROPRIATE TO ADJUST THE COST OF DEBT, WHAT APPROACH WOULD YOU RECOMMEND?

A. I would recommend using the current market cost of debt. Otherwise, there would be a serious mismatch between pre-existing debt and inflation anticipated by investors in the future. However, to do so would in the instant case would produce a cost of debt that is higher than the book cost of debt.

Q. PLEASE EXPLAIN WHY THAT WOULD BE THE CASE.

A. The current cost of an AAA investment-grade bond is 6.37 percent (October 29, 2008). Assuming Staff's downward inflation adjustment of 1.2 percent, the inflation-adjusted cost of debt would be 5.17 percent (6.37% less 1.2% equals 5.17%). In contract, Staff's recommended cost of debt is 5.0 percent. I also should emphasize that it is unclear whether CCWC could actually borrow funds at that rate. CCWC has no credit rating, and its parent, American States Water, is currently rated A by Moody's. Thus, the current market cost of debt for CCWC is likely over 7 percent. Therefore, the market cost of debt, even if it were adjusted for inflation, is likely around 6.00 percent, and would produce a higher WACC.

Q. ASSUMING AN INFLATION ADJUSTMENT IS FOUND TO BE APPROPRIATE IN THE INSTANT CASE, WHAT INFLATION FACTOR

WOULD YOU RECOMMEND?

A. I would recommend that the inflation factor be based on average inflation computed on the 5, 7, and 10-year Treasuries and their corresponding inflation-indexed counterparts. The following table shows an analysis of inflation based on the spot yields as of October 29, 2008.

U.S. Treasury	Constant Maturity (Nominal Yield)	Inflation Indexed (Real Yield)	Indicated Inflation (Deflation)
5 Year	2.75%	3.79%	(1.04%)
7 Year	3.21%	3.82%	(.061%)
10 year	3.89%	3.06%	0.83%
		Average	(0.82%)

Using the computed expected inflation rate and multiplying it by 0.5 to account for the fact that one-half of CCWC's FVRB is its OCRB, I would recommend an upward adjustment for inflation of no more than 41 basis points (0.82% x 0.5 x 100).

Q. WHY DO YOU RECOMMEND THE USE OF 5, 7 AND 10-YEAR TREASURIES?

A. I have relied on Staff's testimony in CCWC's prior rate case and the Commission's Responsive Brief filed with the Arizona Court of Appeals. In the prior case, Staff's cost of capital witness testified that most investors consider the intermediate time frame to be the appropriate investment horizon, i.e., they normally consider holding stocks for 5 to 10 years. *See* Surrebuttal Testimony of Alejandro Ramirez , docket No. W-02113A-04-0616 (May 5, 2005) at 11. In its Responsive Brief, at page 28, the Commission quoted Mr. Ramirez's testimony. Notably, this position is consistent with Staff's use of 5, 7, and 10-year Treasury yields in their CAPM

and the use of 3 to 5-year stock price appreciation in developing the current market risk premium ("MRP") for the CAPM. Further, Staff uses 5 years of historical dividends per share ("DPS") and earnings per share ("EPS") as proxies for the growth rate used in their DCF models.

If investors do regard stocks as a 5 to 10-year investment, they also consider future inflation during that same time period. In other words, if an investor expects to hold a stock for 5 years, he is concerned about inflation during that 5-year period – not inflation a decade later. Thus, it does not make sense to use 20-year Treasuries to estimate expected inflation while assuming that investors hold stocks for 5 to 10 years.

C. <u>Other Problems Regarding the Inflation Adjustment.</u>

Q. WHAT IS THE RATIONALE FOR ADJUSTING THE RATE OF RETURN TO ACCOUNT FOR FUTURE INFLATION?

A. The Commission determined that the FVRB contains an inflation component and that the WACC contains an inflation component. *See* Decision No. 70441 at 33. Consequently, if the WACC is applied to the FVRB without the recognition of inflation, the impact of inflation would be overstated, and the revenues resulting from applying the WACC to the FVRB would over compensate the utility. *Id.* While I disagree with this rationale for the reasons stated earlier in my testimony, I would add that adjusting the WACC for inflation without consideration of the impact on the operating expenses of a utility is piecemeal ratemaking.

Inflation also impacts the utility's operating expenses. Thus, between rate cases, the utility's operating income and its earnings will both decline due to increases in operating expenses. These inflationary impacts are not necessarily the same, nor are they of the same magnitude as the inflation that an equity investor might anticipate in the future. Utility companies experience price increases for

specific types of costs which are unrelated to general inflation in the economy at large. For example, repairs and maintenance costs are impacted by the costs of materials and labor for construction services. Moreover, the impact on the utility's earnings caused by increases in operating expenses is much more significant than potential increases in the utility's RCND rate base.

For example, in Decision No. 68176, the Commission authorized recovery of adjusted test year operating expenses of $4,003,011 (exclusive of depreciation and income taxes). Decision No. 68176 at 16. Assuming inflation of 2.46 percent, as Staff does, operating expenses increased by $98,474 in the year following the test year ($4,003,011 x 0.0246), and by over $173,916 between the end of the last test year (2003) and October 1, 2005. Because rates are set on an historic basis, the inflationary increase in operating expenses is not reflected in current rates. To put this in perspective, $98,474 is equal to 8.9 percent of the total operating income authorized in Decision No. 68176, and equal to 11.4 percent of the effective net earnings (operating income less debt service) authorized by the decision. In other words, under an assumed inflation factor, which is arguably low, CCWC was earning substantially less than its authorized return on equity as soon as new rates became effective in 2005.

By contrast, Staff's inflation factor would cause the Company's FVRB to increase by $280,083 in the year following the test year ($20,340,298 x 0.012), and by more than $492,350 between the end of the test year and October 1, 2005. A substantial portion of that increase would be offset by depreciation. But even if depreciation is ignored, the impact of this assumed increase in rate base (and the resulting increase in rate of return dollars) is overwhelmed by the increase in operating expenses. An increase in the FVRB of $280,083 would translate into $21,126 of additional operating income ($280,083 x 0.076). The increase in

operating expenses during that same one-year period would be $98,474, as shown above. If depreciation is considered, the difference would be much greater.

In short, price and cost increases affect all of Chaparral City's business activities, not just the current value of its rate base. When combined with the use of historic test years and the lag inherent in the rate-setting process, the utility is almost always behind. The use of the fair value of the utility's property as its rate base simply helps to level the playing field.

Q. DOESN'T THE ASSUMPTION THAT INFLATION IS DOUBLE COUNTED (IN THE WACC AND THE FVRB) ASSUME THAT UTILITY HAS RECOVERED INFLATION IN THE PAST?

A. Yes. And this assumes that the utility has actually earned its authorized return. Theoretically, the cost of equity includes not only an inflation component, but a number of other components, including the real risk-free rate of interest, interest rate risk, business risk, regulatory risk, financial risk, construction risk, liquidity risk and other firm-specific factors. These components are fluid and change over time. They are also extremely difficult to disaggregate and individually quantify. Investors consider these factors both individually and collectively. The authorized return on equity may understate or overstate the true risk to investors, given that it is an attempt to estimate what return investors expect to earn in the future if they purchase shares of stock issued by publicly traded companies that are used as proxies for CCWC. It is further assumed that an investor would view CCWC as presenting the same investment risk as the stocks of the proxies.

Putting aside the difficulties inherent in measuring what (if any) inflationary component the cost of equity adopted by the Commission contains, the "double counting" inflation argument ignores the fact that authorized rate of return is <u>not</u> guaranteed. There is no evidence that CCWC has consistently earned its

authorized return on common equity in the past, nor is there any certainty that it will do so in the future. If CCWC hasn't earned its authorized return on equity, there is no basis on which to assume that inflation is being double counted by applying the rate of return to FVRB. And, because the cost of debt is a fixed, recurring obligation, any shortfall in recovering the authorized rate of return is borne by the utility's investors. Consequently, to suggest that investors have already fully recovered one or more of the components of the rate of return in the past is simply speculation.

Q. MR. FOX CONTENDS THAT INVESTORS IN THE UTILITY BENEFIT THROUGH APPRECIATION IN THE VALUE OF THE UTILITY'S ASSETS. IS HE CORRECT?

A. I disagree with the underlying premise of Mr. Fox's argument, which is found on page 9 of his direct testimony, for several reasons.

First, Mr. Fox assumes that the value of CCWC's assets – its FVRB – will increase by 1.2 percent per year. However, the market value of those assets are affected by a number of factors, not just "inflation."

Second, the purchasers of the stocks of the publicly traded water utilities in Staff's sample group also expect that the price of their stock will appreciate. In other words, their total return on their investment is a combination of future dividends and an increase in the stock price. Yet in estimating the cost of equity, Staff has ignored future increases in stock price. On page 42 of his direct testimony, Mr. Chaves argues that all stock investors care about are future dividends. A cost of equity that is based solely on future dividends (e.g., the DCF model) understates the total return expected by investors and, therefore, understates the cost of equity.

Third, Mr. Fox has ignored the liquidity risk associated in holding the assets

of a regulated water utility as opposed to holding shares of publicly traded common stock. If a shareholder of Aqua America becomes concerned about his equity investment in that firm, he can sell his stock in a few hours (or, on-line, much sooner). In contrast, there is no market for the assets of a water utility. Nor can the water utility decide to go out of business if its earnings are inadequate due to its legal obligation to furnish service.

In short, Mr. Fox ignores the basic fact that regardless of whether the value of CCWC's assets increase (or decrease), its shareholder has no ready means to obtain that appreciation (or minimize its losses). This is a much different situation than an investor in the common stock of a publicly traded firm. The failure to allow a fair return on FVRB on the basis of future appreciation is, therefore. speculative at best, and would deprive CCWC of the opportunity to earn a higher return if the value of its assets increases, which is contrary to the fair value standard.

VI. COMMENTS ON STAFF'S FINANCIAL RISK ADJUSTMENT FOR CHAPARRAL CITY WATER COMPANY.

Q. DO YOU HAVE COMMENTS REGARDING STAFF'S FINANCIAL RISK ADJUSTMENT?

A. Yes. I have reviewed the basis for Staff's financial risk adjustment and examined Staff's work papers. I have found several problems with the computation. First, a beta for CCWC is required to make this adjustment, yet I found no market beta for CCWC in Staff's testimony or work papers. Staff assumes the beta of the large publicly traded utility companies is the beta for CCWC. Consequently, there is no support for this adjustment. Second, Staff did not use the same inputs regarding the proposed capital structure for the water utility sample companies that Staff used in the past and the difference in the computed financial risk adjustment is 70 basis

points. Third, Staff does not use market value capital structures when unlevering and relevering the betas. This is an assumption of the Hamada method which Staff employs. *See* Ramirez DT at 34.

Based on my computation of the financial risk adjustment using Staff's models, the downward financial risk adjustment should be no more than 60 basis points – 120 basis points less than Staff's 180 basis point recommendation.

Q. BRIEFLY EXPLAIN THE BASIS OF STAFF'S FINANCIAL RISK ADJUSTMENT COMPUTATION?

A. Staff's financial risk estimation is based upon the methodology developed by Professor Hamada of the University of Chicago, which incorporates the beta of a levered firm to that of its unlevered counterpart. The equation is

$$\beta_L = \beta_U[1 + (1 - T)\varphi]$$

where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate, and φ the leverage, defined as the ratio of debt and equity of the firm. In simple terms, Staff unlevers the average beta of the six publicly traded water in its sample using a ratio of debt and equity. Once the unlevered beta is determined, Staff relevers the beta using the capital structure of the subject utility. The relevered beta is then used in Staff's CAPM models, and the new CAPM results are compared to Staff's original CAPM results. The computed difference is the basis of the financial risk adjustment.

Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT STAFF HAS CHANGED THE WAY IT COMPUTED ITS FINANCIAL RISK ADJUSTMENT AND THE DIFFERENCE IN THE COMPUTED FINANCIAL RISK ADJUSTMENT BASED ON THOSE CHANGES.

A. First, let me say that what prompted a more thorough review of Staff's financial risk adjustment was the rather shocking 180 basis point reduction to the cost of

equity in this case. In my experience, I have never seen a financial risk adjustment of that magnitude recommended by Staff. The largest downward financial risk adjustment that I have seen recommended by Staff and adopted by the Commission was in the recent Gold Canyon Sewer Company ("Gold Canyon") rate case (Decision 69664 June 24, 2007). In the Gold Canyon case, Staff recommended a 100 basis point reduction to the cost of equity due to a capital structure consisting of 100 percent equity. I reviewed the Staff work papers in the Gold Canyon matter and compared them with the Staff's work papers in the instant case in order to try to discern why the adjustment was so large. In the Gold Canyon case, the capital structure Staff assumed when it unlevered the beta was 40 percent debt and 60 percent equity. In the instant case, Staff assumed a capital structure of 50 percent debt and 50 percent equity.

Q. ISN'T THE 50 PERCENT DEBT AND 50 PERCENT EQUITY CAPITAL STRUCTURE THE ACTUAL BOOK CAPITAL STRUCTURES OF THE WATER UTILITY SAMPLE COMPANIES IN THE INSTANT CASE?

A. Yes. However, in the Gold Canyon case, the actual capital structures were more similar to a 50/50 debt/equity capital structure than the 40/60 debt equity capital structure employed by Staff.

Q. COULD THIS HAVE BEEN AN OVERSIGHT BY STAFF?

A. I am not sure. But reluctantly, I had to defend Staff's financial risk adjustment in the Gold Canyon rehearing order to preserve the results of the initial decision in that case. I pointed out that Staff used an assumed capital structure of 40 percent debt and 60 percent equity

Q. WHY WOULD A 40/60 DEBT/EQUITY CAPITAL STRUCTURE BE USED TO UNLEVER THE BETA AS OPPOSED TO THE AVERAGE ACTUAL BOOK DEBT/EQUITY CAPITAL STRUCTURES OF THE PUBLICLY

TRADED WATER UTILITIES?

A. That question should probably be better answered by Staff. However, presumably, it is to keep the financial risk reasonable and to encourage utilities to maintain healthy capital structures by not penalizing utilities for having capital structures with debt in the capital structure as great as the larger, publicly traded water utilities. If the view is that utilities should ordinarily have no more than 40 percent debt in their capital structure, then it would make sense to use the 40/60 debt/equity ratio when unlevering the beta in the financial risk computation. For example, if a utility had a capital structure of 35 percent debt and 65 percent equity, Staff's risk adjustment methodology would not produce as high of a downward financial risk adjustment using a 40/60 debt/equity capital structure to unlever the beta as opposed to unlevering the beta using a 50/50 debt/equity capital structure. Of course, if that is the underlying rationale, it should be consistently applied for capital structures of up to 40/60 debt/equity. Then, if Staff actually recommends a financial risk adjustment, their approach will be consist from case to case and not appear to be result-driven.

Q. **WHAT WOULD HAPPEN IF A UTILITY EXCEEDED 40 PERCENT DEBT IN ITS CAPITAL STRUCTURE?**

A. If a utility exceeded 40 percent debt in its capital structure, the methodology employing a 40/60 debt/equity capital structure to unlever the beta would produce a positive financial risk adjustment - essentially rewarding companies for having an unhealthy capital structure. In those cases, Staff may have to use another approach to address the higher leverage. Or, as has happened in other cases, Staff simply may have to not propose a financial risk adjustment unless the percentage of debt is substantial, say greater than 60 percent. In other words, a financial risk adjustment should be used only in more extreme cases, where there is very little (or no) debt or

a significant amount of debt in the capital structure.

Q. WHAT IS THE DIFFERENCE IN THE FINANCIAL RISK ADJUSTMENT USING THE 40/60 AND 50/50 DEBT/EQUITY CAPITAL STRUCTURES TO UNLEVER THE BETA IN THE FINANCIAL RISK COMPUTATION?

A. 70 basis points. The financial risk computation using 40/60 debt/equity produces a 110 basis point downward financial risk adjustment as opposed to the 180 basis points recommended by Staff in this case.

Q. DOES STAFF CONSISTENTLY RECOMMEND A FINANCIAL RISK ADJUSTMENT WHEN THE CAPITAL STRUCTURE IS DIFFERENT THAN THE 40/60 DEBT/EQUITY CAPITAL STRUCTURE?

A. Based on the available information to me at this time, no. I have not been able to complete a thorough analysis, in part, because Staff has not been forthcoming in its responses to the Company data requests on this subject. *See* Staff Responses to Company Data Request 1.51, attached hereto in Exhibit 7. However, the following is a table of recent cases showing the capital structure, Staff's unadjusted cost of equity, Staff's recommended financial risk premium, and Staff's recommended cost of equity.

Company (Docket/Decision/Date)	Capital Structure Debt/Equity	Staff Unadjtd ROE	Financial Risk Adjust.	Staff ROE
Gold Canyon Sewer Company (SW-02519A-06-0015, ACC No. 69664 Jun. 28, 2005)	0/100	10.2%	-1.0%	9.2%

Black Mountain Sewer Company (SW-02361A-05-0657, ACC No. 69164 Dec. 5, 2006)	0/100	9.6%	0.0%	9.6%
Goodman Water Company (W-02500A-06-0281, ACC 69404 Apr. 16, 2007)	0/100	9.3%	0.0%	9.3%
Arizona Water – Eastern Group (W-01445A-02-0619, ACC No. 66849 March 15, 2004)	34/66	9.2%	-0.2%	9.0%
Arizona Water – Western Group (W-01445A-04-0650, ACC No. 68302 Nov. 14, 2005)	27/73	9.2%	0.0%	9.2%
Chaparral City Water Company (W-02113A-07-0551	24/76	11.8%	-1.8%	10.0%

As the data in the table shows, Staff has not a recommended financial risk adjustment on a consistent basis.

Q. SHOULDN'T WE LOOK AT THESE CASES AND THE CIRCUMSTANCES IN EACH CASE BEFORE MAKING ANY PARTICULAR CONCLUSIONS ABOUT WHETHER A FINANCIAL RISK ADJUSTMENT IS CONSISTENTLY RECOMMENDED BY STAFF?

A. Yes. However, the view of Staff has been that the only specific risk that should be considered is financial risk. The standard for whether a utility has more or less

financial risk than the sample publicly traded water utilities is whether the utility has more or less debt than the sample publicly traded water utilities. Consequently, there are no firm-specific factors that would appear relevant other than capital structure, and I am not aware of Staff discussing any firm-specific risk factors in connection with recommending a financial risk adjustment. By this measure and based on the limited sample provided above, Staff has been inconsistent.

Q. PLEASE EXPLAIN WHY MARKET VALUE CAPITAL STRUCTURES SHOULD BE USED IN STAFF'S FINANCIAL RISK ADJUSTMENT AND YOUR COMPUTED FINANCIAL RISK ADJUSTMENT OF 50 BASIS POINTS.

A. Professor Hamada developed his methodology using market values of the firm. Market values are relevant.[3] Other authorities in the subject of finance recognize that market values of the firm are relevant when it comes to leverage and financial risk.[4] This is logical given that Professor Hamada's formula is an extension of the CAPM, which is a market-based model that does not consider book or accounting data, as I have explained.

Q. HAS STAFF PROVIDED ANY SUPPORT FOR USING BOOK DEBT AND EQUITY?

A. No. Staff's discussion on the subject other their financial risk adjustment is sparse. *See* Chaves DT at 34-35. It is difficult to address this subject adequately at this time without knowing Staff's rationale and authoritative support for the use of book values. I have been unable to find any authority for using book value in the

[3] "Effects of the Firm's Capital structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2 (May 1972) 435-453.

[4] Shannon, P. Pratt, *Cost of Capital – Estimations and Applications*, John Wiley & Sons 83-85, Roger A. Morin. *New Regulatory Finance* (2006) 221-25.

Hamada formula.

Q. WHAT FINANCIAL RISK ADJUSTMENT HAVE YOU COMPUTED USING STAFF'S MODELS AND MARKET VALUES?

A. I computed a downward financial risk of 60 basis points. I used the market value of equity for the publicly traded water utilities, which I computed using their market-to-book ratios as set forth in Staff's testimony. For debt, I used the book value of debt as the market value. According to Dr. Morin, this is an appropriate assumption.[5] To compute the market value of CCWC's equity, I used Staff's recommended FVRB less Staff's book value of debt for the Company as set forth in their testimony. This is consistent with the finding of value for the Company in the instant case. Alternatively, I could have estimated the market value of CCWC's equity using the average market-to-book ratio of the sample publicly traded utility companies. Using the FVRB approach is more conservative.

Q. BASED ON THE 60 BASIS POINT DOWNWARD FINANCIAL RISK ADJUSTMENT AND THE 41 BASIS POINT UPWARD INFLATION ADJUSTMENT, WHAT WOULD BE STAFF'S COST OF EQUITY, COST OF DEBT, "FAIR VALUE" RATE OF RETURN AND REQUIRED OPERATING INCOME?

A. Staff's cost of equity would increase by 281 basis points to 11.61 percent. Staff's cost of debt would increase by 161 basis points to 5.41 percent. Staff's rate of return would increase by 250 basis points to 10.1. Staff's required operating income would increase by $675,503 to $2,731,334 from $2,055,831.

Q. HOW DOES THIS COMPARE TO YOUR RECOMMENDED COST OF EQUITY, COST OF DEBT, RATE OF RETURN, AND REQUIRED OPERATING INCOME AT THIS STAGE OF THE PROCEEDING?

[5] Morin, *supra* at 224.

A. I am recommending a cost of equity of 11.5 percent, a cost of debt of 5.1 percent, a WACC (ROR on FVRB) of 10.0 percent, and an operating income of $2,776,725.

VII. RESPONSE TO THE TO THE TESTIMONY OF MR. CHAVES ON THE COMPANY'S COST OF CAPITAL ANALYSIS

Q. PLEASE RESPOND TO MR. CHAVES' CRITICISMS ON PAGES 38-41 REGARDING YOUR RELIANCE ON ANALYSTS' FORECASTS OF EPS GROWTH FOR THE GROWTH RATE IN YOUR DCF MODELS?

A. Mr. Chaves' spends a considerable amount of time criticizing my approach in estimating the appropriate growth rate. But he admits that analysts are likely to have considered historical measures of growth in developing their forecasts. *See* Chaves Dt at 39. As I testified in my direct testimony, in estimating future growth, financial institutions and analysts have already taken into account all relevant historical information on a firm as well as other more recent information. Any further recognition of the past will double count what has already occurred. *See* Bourassa DT at 30. In fact, the study discussed in the article that I cited in my direct concluded that of the four methods of estimating the growth component of the DCF model, analysts' forecasts of earnings performed the best, while historic earnings and historic dividends growth were third and fourth, respectively.[6]

Staff gives 50 percent weight to historic growth rates, despite the extremely low results these inputs produce. Exhibits 5 and 6 illustrate the extremely low and unrealistic results produce by the historical DPS and EPS growth rates. For example, as shown in Exhibit 5, using historical DPS growth rates as estimates of growth produce indicated costs of equity *below* the cost of debt for 4 of the 6 publicly traded water utilities – one as low as 3.8 percent. Thus, while Mr. Chaves

[6] David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

criticizes my approach, he does not explain why indicated costs of equity below the cost of debt are reasonable and should be considered in this case. Again, analysts' forecasts would already incorporate historical information into their estimates. *Id.* It is therefore logical to conclude that Staff's growth estimates are distorted by incorporating the historical data and therefore cannot be used.

Mr. Chaves' reliance on the study by David Breman is also puzzling. *See* Chaves DT at 40. Even though Mr. Breman has criticized analysts' growth rates as being too optimistic, Mr. Breman also says *investors rely on those forecasts.*

> We have also seen that in spite of high error rates being recognized for decades, neither analysts nor investors who religiously depend on them have altered their methods in any way." (David Breman, *Contrarian Investment Strategies: The Next Generation.* Simon & Schuster. New York page 115-116.)

If investors rely on analysts' growth rate forecasts, those forecasts should be used to determine the cost of equity. Those growth rates influence the prices investors will pay for stocks and thus impact the dividend yields. The dividend yields change until the sum of the dividend yield plus the growth rate equals investors' perceived cost of equity. Had the growth forecasts been lower – as Mr. Chaves suggests they should be – the stock prices would be lower and dividend yields would be higher, but there would not necessarily be any difference in the ultimate estimate of the cost of equity.

Q. PLEASE RESPOND TO MR. CHAVES' TESTIMONY ON PAGE 44 OF HIS TESTIMONY THAT, DESPITE BEING EXTREMELY VOLATILE, STAFF'S CURRENT RISK PREMIUM RESULTS ARE A REFLECTION OF CHANGES IN THE MARKET'S CURRENT RISK PREMIUM RATHER THAN INSTABILITY IN STAFF'S METHOD?

A. Frankly, experts recommend that when estimating the market risk premium

("MRP") for the CAPM, analysts should rely on returns realized over long time periods.[7] The accuracy of the realized premium as an estimator for the prospective MRP increases by increasing the number of periods used to estimate it. If a current MRP is to be used in the CAPM, it should use a short enough period to gauge current market conditions, without making the estimate so volatile that it becomes an unreliable indicator of actual realized premiums for the near term. Staff's current MRP can produce wide swings in the indicated cost of equity within very short time periods. This makes it highly dependent on the date on which Staff chooses to perform its estimate. So two utilities with rate proceedings occurring at the approximately the same time could have very different cost of equity recommendations from Staff largely the result of their current MRP.

VIII. CRITICISMS OF RUCO'S COST OF CAPITAL ANALYSIS

Q. HOW DOES THE SAMPLE OF WATER UTILITIES MR. RIGSBY USED TO ESTIMATE THE COST OF EQUITY COMPARE TO THE UTILITIES USED BY THE COMPANY AND STAFF?

A. Mr. Rigsby used four publicly traded water utilities. He used the three largest water utilities out of the six water utilities that Mr. Chaves and I have used. Mr. Rigsby's fourth water company is Southwest Water Company. He used Southwest Water in his proxy group despite the fact that this company derives 57 percent of its revenue from unregulated activities. In addition, Southwest Water's return on common equity averaged less than 4.5 percent from 2004 through 2007, and is projected by *Value line* to earn returns on common equity of 4.5 percent and 6.0 percent for 2008 and 2009, respectively..

Q. TO YOUR KNOWLEDGE, HAS THE COMMISSION EVER USED SOUTHWEST WATER IN ESTIMATING THE COST OF EQUITY FOR A

[7] Morin, *supra*, at 157.

WATER OR WASTEWATER UTILITY?

A. No, not to my knowledge. Nor, to my knowledge, has Staff ever used Southwest Water.

Q. DOES MR. RIGSBY ALSO USE SAMPLE GAS COMPANIES TO DEVELOP HIS ESTIMATE OF THE COST OF EQUITY? HOW DO THEY COMPARE TO THE SAMPLE WATER COMPANIES?

A. Yes. He uses eight natural gas companies. However, the sample gas utilities are less risky and therefore are not comparable to water utilities. His sample water companies, for example, have an average beta of 1.05, while his sample gas companies have an average beta of just 0.82. *See* RUCO Schedule WAR-7, page 1 of 2. That means that the equity cost for the water utility should be substantially greater than the gas companies, based on their relative riskiness.

Q. HAS THIS ISSUE EVER COME UP BEFORE?

A. Yes. In several prior cases, water utilities presented evidence of the cost of equity using financial data for a similar group of publicly traded gas companies, which at that time had a higher average beta than the water utility sample. In rejecting this evidence, the Commission adopted Staff's argument that because the water utility sample had a lower average beta than the gas utility sample, the cost of equity for the water utility should be lower. For example, in Arizona Water Company's Eastern Group rate case, the water utility sample had an average beta of 0.59, while the gas utility sample had an average beta of 0.69. Staff estimated that based on the difference in the two groups' betas, the sample gas companies has an equity cost that is 100 basis points higher than the water utilities. Decision No. 66849 (March 19, 2004) at 21. *See also Arizona-American Water Company*, Decision No. 67093 (June 30, 2004) at 27.

Q. DOESN'T SOUTHWEST GAS HAVE A PENDING RATE CASE? AND IF

SO, IS THAT RELEVANT TO THIS CASE?

A. Yes, there is a pending Southwest Gas rate case. It is relevant from the standpoint that CCWC's cost of equity is significantly higher than the gas sample. Therefore, as the Commission indicated in the decisions cited above, CCWC's authorized return on equity should be substantially higher than Southwest Gas' authorized return on equity. At this point, however, the Commission has not issued decision in Southwest Gas' rate case.

Q. WHAT IS THE IMPACT OF RUCO'S USE OF THE GAS UTILITIES TO ESTIMATE THE COST OF EQUITY IN THIS CASE?

A. By averaging the results of his equity cost estimate for the water utility sample with his equity cost estimate for the gas utility sample, Mr. Rigsby has depressed the cost of equity estimates. For example, the average of Mr. Rigsby's CAPM estimates for the water companies and gas companies are 8.9 percent and 7.6 percent, respectively. This is a 130 basis point difference. His CAPM estimate for the gas utilities is 140 basis points below the current cost of Baa investment grade bonds, which is over 9 percent. His overall estimate of 8.83 percent is also less than the current cost of investment grade bonds, which demonstrates that RUCO's methods are biased downward.

Q. WHAT OTHER CONCERNS DO YOU HAVE WITH RESPECT TO MR. RIGBY'S COST OF CAPITAL ANALYSIS?

A. Mr. Rigsby employs a geometric average in calculating the risk premium in his CAPM. His choice to use geometric average depresses his cost of equity estimate downward. An arithmetic average is the correct approach to use in estimating the cost of capital, as various experts have explained.[8] In fact, the CAPM was

[8] Richard A. Brealey and Stewart C. Myers, *Principles of Corporate Finance* 156-157 (7th ed. 2003); Morin, *supra*, at 156-157; Ibbotson SBBI 2008 Valuation Yearbook 77-78.

developed on the premise of expected returns being averages and risk being measured with the standard deviation. As Dr. Morin states,

> Since the latter **[standard deviation]** is estimated around the arithmetic average, and not the geometric average, it is logical to stay with arithmetic averages to estimate the market risk premium. In fact, annual returns are uncorrelated over time, and the objective is to estimate the market risk premium for the next year, the arithmetic average is the best unbiased estimate of the premium.[9]

Q. WHAT IS THE OVERALL COST OF EQUITY ESTIMATE FOR MR. RIGSBY'S WATER UTILITY SAMPLE COMPANIES EXCLUDING THE GEOMETRIC MEAN CAPM ESTIMATE?

A. 9.39 percent, which is the average of his DCF model estimate of 9.0% and his CAPM estimate (using the correct arithmetic average) of 9.78%. By including the sample gas companies in his cost of capital analysis and using a geometric average in his the CAPM estimates, Mr. Rigsby has managed to shave nearly 60 basis points from a cost of equity estimate strictly based on water companies, which are more comparable to CCWC than the gas companies in Mr. Rigsby's sample.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY MR. BOURASSA?

A. Yes.

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[9] Morin, *supra*, at 157-157.

BOURASSA
COST OF CAPITAL
EXHIBITS 1-6

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Market Price

Exhibit 1
Witness: Bourassa

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
							EXPECTED CASH FLOWS						
	Company	Projected Div	5 Year Historical Average Div. Growth	Recent Price	5 Year Historical Annual Compound Price Growth	Year 5 Price	Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div + Price	Implied ROE = Internal Rate of Return (Cols 7-12)
1	1. American States	$ 0.98	2.02%	$ 38.48	13.68%	$ 73.05	$ (38.48)	$ 0.98	$ 1.00	$ 1.02	$ 1.04	$ 74.12	15.8%
2	2. Aqua America	0.52	8.80%	17.55	13.72%	33.38	(17.55)	0.52	0.57	0.62	0.67	34.11	16.4%
3	3. California Water	1.17	0.71%	37.87	12.76%	69.05	(37.87)	1.17	1.27	1.39	1.51	70.56	15.6%
4	4. Connecticut Water	0.89	1.51%	25.81	1.91%	28.37	(25.81)	0.89	0.97	1.05	1.15	29.54	5.8%
5	5. Middlesex	0.71	1.94%	17.18	6.86%	23.93	(17.18)	0.71	0.77	0.84	0.91	24.86	11.1%
6	6. SJW Corp.	0.66	7.43%	29.52	24.69%	88.97	(29.52)	0.66	0.72	0.78	0.85	89.89	26.4%
7													
8													
9	GROUP AVERAGE		3.74%		12.27%								15.2%
10	GROUP MEDIAN		1.98%		13.22%								15.7%
11													
12													
13													
14	Sources:												
15	Value Line Data												
16	Yahoo Finance October 2, 2008												
17													
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Chaparral City Water Company
Historical Compound Annual Total Market Returns

Exhibit 2
Witness: Bourassa

Line No.	Company	3 Yr.** Return	5 Yr.** Return	10 Yr.*** Return
1	1. American States	19.08%	16.30%	19.95%
2	2. Aqua America	9.00%	15.84%	15.62%
3	3. California Water	5.58%	16.07%	9.20%
4	4. Connecticut Water	3.15%	5.38%	12.18%
5	5. Middlesex	6.97%	10.43%	13.15%
6	6. SJW Corp.	28.62%	26.51%	17.90%
7				
8	Average	12.07%	15.09%	14.67%

* 2005-2007
** 2003-2007
*** 1998-2007

Sources:
Value Line Data
Yahoo Finance

Chaparral City Water Company
Historical Compound Annual Capital Appreciation Returns

Exhibit 3
Witness: Bourassa

Line No.	Company	3 Yr.* Return	5 Yr.** Return	10 Yr.*** Return
1	1. American States	16.28%	13.68%	12.35%
2	2. Aqua America	6.81%	13.72%	13.87%
3	3. California Water	2.47%	12.76%	6.33%
4	4. Connecticut Water	-0.40%	1.91%	8.84%
5	5. Middlesex	3.35%	6.86%	9.88%
6	6. SJW Corp.	26.63%	24.69%	16.43%
7				
8	Average	9.19%	12.27%	11.28%

* 2005-2007
** 2003-2007
*** 1998-2007

Sources:
Value Line Data
Yahoo Finance

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Analyst Estimates of DPS Growth

Exhibit 4
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	[6]
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Div. Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1. American States	38.48	1.00	2.60%	4.50%	7.1%	*
2	2. Aqua America	17.55	0.50	2.85%	7.50%	10.3%	10.3%
3	3. California Water	37.87	1.17	3.09%	1.00%	4.1%	*
4	4. Connecticut Water	25.81	0.89	3.43%	Not Available		
5	5. Middlesex	17.18	0.71	4.11%	Not Available		
6	6. SJW Corp.	29.52	0.66	2.22%	Not Available		
7							
8	GROUP AVERAGE					7.2%	10.3%
9	GROUP MEDIAN					7.1%	10.3%
10							
11	Current Baa interest rate (October 16, 2008)					9.1%	
12							
13	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10					8.0%	
14	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10					6.8%	
15	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus					7.3%	
16							
17	* Indicated equity cost below current cost of debt (Baa) or negative growth.						
18							
19	Sources:						
20	Value Line Analyzer Data September 2008						
21	Yahoo Finance October 2, 2008						
22	Federal Reserve October 16, 2008						
23	Blue Chip Financial Forecast June 2008						

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Exhibit 5
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	[6]
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Historical Div. Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1. American States	38.48	1.00	2.60%	2.02%	4.6%	*
2	2. Aqua America	17.55	0.50	2.85%	8.80%	11.6%	11.6%
3	3. California Water	37.87	1.17	3.09%	0.71%	3.8%	*
4	4. Connecticut Water	25.81	0.89	3.43%	1.51%	4.9%	*
5	5. Middlesex	17.18	0.71	4.11%	1.94%	6.1%	*
6	6. SJW Corp.	29.52	0.66	2.22%	7.43%	9.7%	9.7%
7							
8	GROUP AVERAGE				3.7%	6.8%	10.7%
9	GROUP MEDIAN				4.1%	5.5%	10.7%
10							
11	Current Baa interest rate (October 16, 2008)					9.1%	
12							
13	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10					8.0%	
14	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10					6.8%	
15	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus					7.3%	
16							
17	* Indicated equity cost below current cost of debt (Baa) or negative growth.						
18							
19	Sources:						
20	Value Line Analyzer Data September 2008						
21	Yahoo Finance October 2, 2008						
22	Federal Reserve October 16, 2008						
23	Blue Chip Financial Forecast June 2008						

Chaparral City Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical EPS Growth

Exhibit 6
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	[6]
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Historical EPS Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1. American States	38.48	1.00	2.60%	8.22%	10.8%	10.8%
2	2. Aqua America	17.55	0.50	2.85%	5.76%	8.6%	*
3	3. California Water	37.87	1.17	3.09%	4.25%	7.3%	*
4	4. Connecticut Water	25.81	0.89	3.43%	Negative	NM	NM
5	5. Middlesex	17.18	0.71	4.11%	4.42%	8.5%	*
6	6. SJW Corp.	29.52	0.66	2.22%	6.93%	9.2%	9.2%
7							
8	GROUP AVERAGE				5.9%	8.9%	10.0%
9	GROUP MEDIAN				5.8%	8.6%	10.0%
10							
11	Current Baa interest rate (October 16, 2008)					9.1%	
12							
13	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10					8.0%	
14	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10					6.8%	
15	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus					7.3%	
16							
17	* Indicated equity cost below current cost of debt (Baa) or negative growth.						
18							
19	Sources:						
20	Value Line Analyzer Data September 2008						
21	Yahoo Finance October 2, 2008						
22	Federal Reserve October 16, 2008						
23	Blue Chip Financial Forecast June 2008						

BOURASSA
COST OF CAPITAL
EXHIBIT 7

STAFF'S RESPONSE TO THE
FIRST SET OF DATA REQUESTS
FROM CHAPARRAL CITY WATER COMPANY
TO THE ARIZONA CORPORATION COMMISSION STAFF
Docket No. W-02113A-07-0551
October 16, 2008

1.52. Has Staff proposed an adjustment to its recommended return on equity utilizing the Hamada formula, or a similar adjustment that takes into account the amount of debt in that utility's capital structure in any utility rate cases in the past 18 months? If Staff has proposed such an adjustment, provide a copy of Staff's cost of capital testimony, and all workpapers and other materials showing how it was calculated.

RESPONSE: Objection, this data request is overbroad and burdensome, requests information that is not maintained in the normal course of business and would be time-consuming and burdensome to compile. Notwithstanding the above, the following response is provided.

Staff has in prior cases proposed an adjustment to its recommended return on equity utilizing the Hamada formula. Copies of Staff's cost of capital testimony are available through Docket Control. Staff would point to Docket No. 07-0209

Respondent: Pedro Chaves